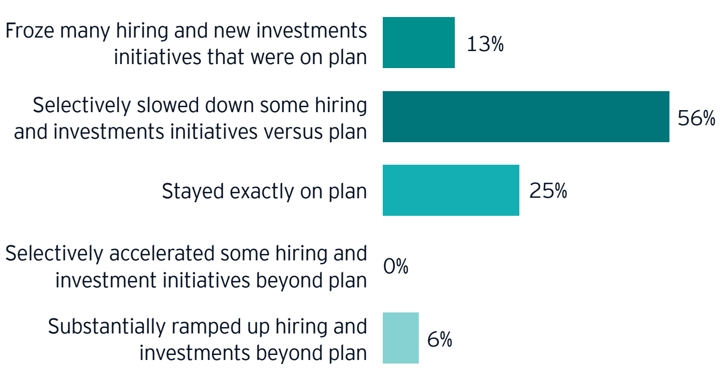
# CFOs remain cautious in 2024 while keeping an eye on policy and AI

## EY Center for Executive Leadership — April 2024 CFO roundtable

Questions about the economic outlook for 2024, the political scenarios and their impact on policy matters, together with generative AI (GenAI), were on the minds of about 20 Fortune 250 CFOs who gathered in April to discuss perspectives. These CFOs — representing about $1.2 trillion in aggregate market capitalization altogether — have been acting cautiously over the last six months with about 70% slowing down investments and hiring or freezing them altogether. In fact, 56% of the CFOs indicated they have been slowing down hiring and investments and another 13% have been freezing these expansions; in contrast, only 25% have stuck to plan and 6% have doubled down on investment and hiring plans.

**Q** Relative to your business plan, what hiring and investment decisions have you made over the last 6 months? (Single choice)




This roundtable — organized by the EY Center for Executive Leadership and hosted by **Julie Boland**, EY US Chair and Managing Partner and EY Americas Managing Partner, and **Juan Uro**, EY Americas Leader for the EY Center for Executive Leadership — included perspectives from **Gregory Daco**, EY Chief Economist, as well as **Bridget Neill**, EY Americas Vice Chair for Public Policy, and **John Hallmark**, EY US Political and Legislative Leader. They were also joined by **Janet Truncale**, EY Global Chair and CEO.

As we navigate through 2024 and beyond, here is a window into how CFOs are thinking.

## The economic environment: labor and cost fatigue

Viewing the results of our poll, one CFO of a staffing company offered his unique insight based on his business. "When companies get more confidence to expand their workforce again, they typically lean heavily into temporary staffing, initially," he said. "With more confidence, they expand into permanent placement. What I would tell you is: we're still seeing very cautious employers. … The big, conflicting source of all this is the labor market. Every month continues to surprise people with how strong it is compared with what we hear from employers."

For Daco, this affirms the enduring value of talent, which grew scarce in the fallout from COVID-19. "We have a hiring rate that has fallen down to 2018 levels," he noted. "But we haven't seen significant or broad-based layoffs there's much more retention." This highlights how companies are reluctant to cut talent but have to manage the higher cost of labor.

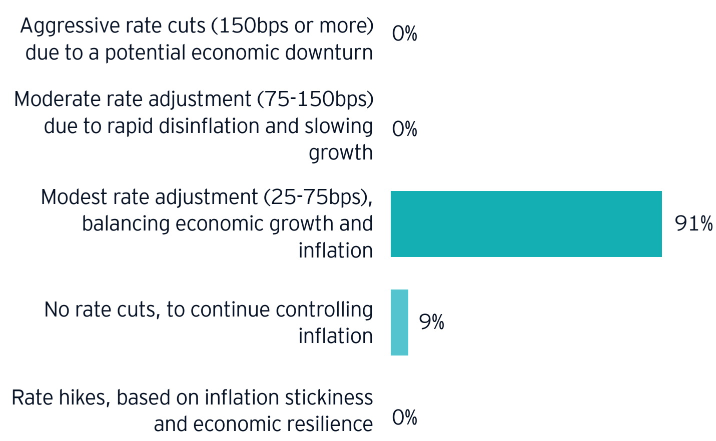
Some CFOs affirmed that their sectors, such as technology, remained soft. "We're facing deferred spending and projects," one said. "Our clients have more of a focus on short-term ROI. That's been for a year or more. Besides the public sector, spending in tech has been challenging. We've pulled back on headcount after significant hiring post-pandemic. We're in a mode now to hold the line, drive efficiencies and scale opportunities to begin to hire a bit more for the turn of the cycle."

While inflation has moderated, CFOs felt that the market may also be strained by cost fatigue. "You have pressures from inflation broadly and whether people can borrow money," one CFO of a restaurant chain said. "But the other side, because costs increased and companies raised prices, you now have high prices for consumers where there now are heavy discounts. You're so high even from two years ago – you can have temporary promotions, but you still have an elevated cost."

Daco said that, in the aggregate, average prices and wages have both gone up about 20% since the pandemic. "But no one spends or earns the exact average," he said. "Rent, gas prices, groceries, autos, insurance costs … those types of sectors are likely to see more persistent impact from cost fatigue and more scrutiny in terms of consumer spending."

Which all leads to the question on everyone's minds: when will the Fed cut interest rates? Daco predicted 75 basis points of cuts beginning in June, followed by 150 basis points in 2025 – in line with the views of CFOs during the discussion. However, Daco also said that some policymakers could favor less policy easing if disinflation slowed, and he stressed that interest rates will likely stay above the pre-pandemic range that CFOs grew used to post-financial crisis.

**Q** The Fed has likely reached its most restrictive stance in this cycle. In 2024, do you expect: (Single choice)

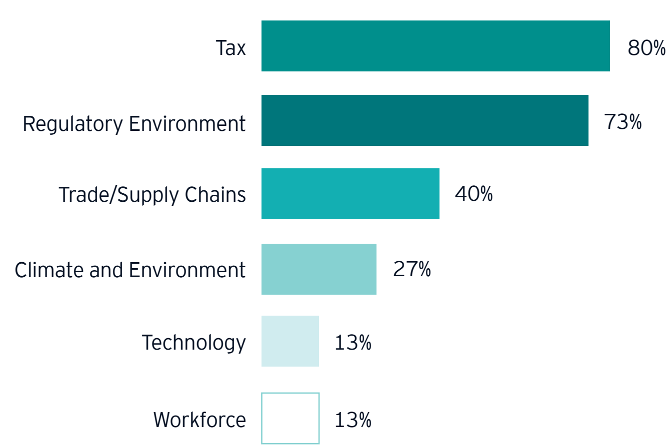



## Political implications in 2024

In one sense, 2024 isn't a change from prior years: Joe Biden and Donald Trump are back on the ballot, in the first presidential rematch in 70 years. "Instead of focusing on campaign rhetoric, you can compare two presidents' records – that's unique," Neill said. And while it may be easy to predict political gridlock, Hallmark noted tax and regulatory policy will still evolve, through executive orders and agency priorities. "Even in divided government, government does function and policies are furthered," he said. "Legislation can and does pass, but with compromises."

From a policy perspective, CFOs are highly focused on tax and regulatory issues, while trade and climate are also considerations.

**Q** Which of the following areas is your company most focused on from a policy perspective? (Multiple choice)



Many provisions of the Tax Cuts and Jobs Act (TCJA) will expire in 2025, likely driving the debate on taxes next year, depending on the outcomes of the elections. President Biden has laid out a series of proposed increases to fund other priorities, while Trump would likely choose to prefer to extend his signature legislative achievement (and perhaps for additional cuts, as conservatives prefer, with resulting "pay-fors" to help offset the loss of revenue). Hopes for further changes before 2025 seem unlikely.

While the US policy outlook is important, global internal taxation is also critical. "It's a combination of overall rates but also international rates and the ability to leverage cash in our international markets — what that will be and what the burden and liability will be," one CFO shared. Another CFO for a life sciences company added: "A vast majority of my time is spent on Pillar Two and regulations and implications of international taxation."

In addition to overall tax rates and international rates, CFOs were most focused on these legislative topics:

- The ability to leverage cash in international markets, including penalties for repatriation, particularly with regard to China
- R&D amortization, a TCJA pay-for that recently kicked in, which arguably encourages companies to move their R&D outside the US
- Antitrust policy, in which the current administration is seen as aggressive
- The administrative impact of ever-evolving climate disclosures

In terms of the regulatory environment, "The approach to regulation is an obvious area where the two candidates differ significantly, but it's not a black-and-white comparison between the two candidates," Neill said. "You might hear: 'Trump is absolutely anti-regulatory.' That's not quite the case. And we won't have a disappearance of enforcement."

She noted that the leaders of the SEC under Trump and Biden were almost equal in the number of rules adopted, although they had different rulemaking priorities, such as capital formation under SEC Chair Jay Clayton and investor protection under current SEC Chair Gary Gensler. "I couldn't accept that when I first saw it," she said. "But to some extent, those differences have played out with litigation rates — it's almost threefold higher under Gary Gensler. Both leaders believed in rulemaking, but their terms played out differently." While Gensler has signaled his interest in continuing as Chair in a second Biden administration, most agencies typically experience turnover after a presidential election — and since "people are policy," that is evidence that priorities can shift even when a familiar face returns to the Oval Office.

## GenAI

As CFOs debated the realities of today's labor market and the costs associated with it, GenAI naturally came up as a driver of productivity. And when the discussion turned to regulation, GenAI surfaced again. Like many transformative technologies, GenAI has become ubiquitous — and is therefore front and center on the CFO agenda.

Boland has already seen an evolution in expectations surrounding GenAI. "Of all the audit and board committee meetings I join, there had been a lot of conversations on experimentation," she said. "And now this year it's: 'Where are you getting ROI?' For CFOs, it's procurement, talent, and design and product development. … These people tend to be outside of finance, but they're looking to CFOs to determine where to double down on investment more."

These executives are also forced to rethink when to hire (and how) when the equation has become murkier. "AI should produce productivity, and it's not an easy one-for-one gain," one tech CFO said. "It's a forcing function of getting productivity over time. We're pacing ourselves and thinking forward on hiring that could or should happen as we invest in AI. It's a different rhythm than we're used to, but it's promising in terms of payback potential." Another CFO in consumer products added: "We're not hiring more, but it's not that we're not confident about in the future — we expect a good year in 2024. We'll have a good year with the same investments thanks to AI, especially on increasing efficiency."

Although AI has been used at many multinationals for several years, GenAI specifically remains in its earliest stages at most of the organizations represented in the discussion, including in the finance function. CFOs said they were leveraging digitally enabled managed services with regard to their account and journal entry processes, as well as scrutinizing data management and workflow automation. Thinking more broadly than just GenAI and finance, CFOs mentioned use cases such as:

- Significantly reducing call center activities, with opportunities to drive customers to self-service
- Optimizing HR and personnel functions, including in recruiting
- Advancing predictive modeling in forecasting and supply chains

"The predictive piece on forecasting is interesting to us," one CFO said. "We have one that runs in parallel to our existing forecasting; it's another data point, and the two are surprisingly close. It's been helpful although not proven in uncertain times. It'll be interesting to see how it reacts in downcycles."

Many also said they were updating their infrastructure to layer on GenAI capabilities, by moving toward common ERP and data platforms and better enabling use of the cloud. And with regard to regulation, the Biden administration issued an ambitious executive order that Trump has said he would rescind.

However, Hallmark noted that two universal truths in Washington apply to any president on AI: it's an opportunity for the US to solidify its global leadership role, yet the risks are ever-present and must be mitigated — such as worker displacement, deepfakes and biased algorithms. In the case of a Trump victory, "It may not be an effort to stop the regulations but rather rebrand them," Hallmark said.

## Summary

Many CFOs in our group said they were selectively slowing down some hiring and investments — not necessarily a reflection of a softening economy, but more in response to today's complex economic, policy and geopolitical environment, in which inflation is moderating but cost fatigue persists. On top of their agendas: potentially new directions in tax and regulatory policy after November's presidential election, as well as building out their technology capabilities to capitalize on still-nascent use cases for GenAI.

EY | Building a better working world

EY exists to build a better working world, helping create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.



US SCORE no. 23033-241US
2403-4512348

ED None



ey.com