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CFOs PREDICT MODEST UPTICK IN 2002

Employment and Wages Set to Rise Modestly At Most Surveyed Companies

Credit Tight Despite Rate Cuts

DURHAM, N.C. and MORRISTOWN, N.J., December 14, 2001 — Most Chief Financial Officers of U.S. companies expect the current economic recession to continue through the first half of 2002, followed by a modest recovery. More near-term, the end-of-year bonus season will not be jolly, but in the New Year CFOs predict a mild recovery in corporate earnings and a slight pick-up in hiring. Despite the series of Fed rate cuts, most CFOs find credit to be tight. These are some of the findings of the latest CFO Outlook Survey conducted by Financial Executives International (FEI) and Duke University's Fuqua School of Business.

Employment and Wage Outlook

According to the Labor Department, the U.S. unemployment rate jumped to 5.7% in November, a six-year high. CFOs are predicting, though, that payroll numbers will begin to turn around in 2002. More than half (53%) of the surveyed CFOs expect the number of employees at their company to increase next year, while 45% expect to have fewer employees. On average, employment is expected to rise 1.3%. Further, 93% of CFOs expect wages and salaries at their company to increase next year, with a net average 3% rise in wages, although overtime is expected to decrease, by 4.5%.

"Any rise in employment numbers will be good news in this economy," said John Graham, PhD, finance professor at Fuqua and director of the survey. "We'll be watching this employment forecast closely next quarter to see if there's a trend in corporate hiring plans."

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Workers don't have reason to cheer yet, this holiday season. Among firms that traditionally give year-end bonuses, 45% of CFOs say the bonus payments at their company will be "dramatically lower" compared to last year. Another 18% say payouts will be "slightly lower." Only 4% will see dramatic increases in bonuses.

Tight credit markets

Tuesday, December 11, marked the eleventh interest rate cut in 2001. In this low interest rate environment, 32% of surveyed companies attempted to borrow additional funds. However, 57% of borrowers report finding that credit is tight. Only 12% say that low interest rates have led to easy credit terms. Notably, 78% of high-tech firms say that credit is tight. Thirty-one percent of firms have refinanced debt.

Technology, capital spending and other corporate plans

Surveyed companies' plans for 2002:

- Prices: Companies are planning to increase the prices of their products 2.4% in 2002
- Capital spending: 47% of firms will reduce capital spending in 2002, relative to 2001. Averaged, capital spending will decline by 5%
- Technology spending: Technology providers may be glad to learn that 58% of firms in the survey expect to increase their IT budgets in 2002; 40% will decrease spending. In the aggregate, corporate technology spending will increase by an average of 1.4%
- Inventory will be down by 3% in 2002
- Productivity is expected to increase an average of 3.5% in the next 12 months with 94% of companies expecting some positive growth in worker output. However, transportation and energy firms expect productivity to fall 3%

Economic outlook – dour short-term; Corporate earnings to start recovery

Only 6% of CFOs surveyed expect relief from the current recession to come in the next three months, though 65% expect the recession to end in either the second or third quarter of 2002. Fifteen percent predict Q4 and another 14% say 2003 or later. The CFOs further predict that 2002 GDP growth, while positive, will be very modest, averaging 1.1%.

Still, CFOs feel slightly more optimistic about the economy than they did last quarter. Forty-six percent are more optimistic, 30% are less optimistic, and 24% report no change. This restrained optimism translates into an expected return of 7% for the S&P 500 index in 2002.

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Despite expectations of modest economic growth, the CFOs predict a recovery in corporate earnings. The CFOs predict that earnings at their company will increase 14% on average in 2002 (median growth of 10%). This is an increase in the previous quarter's 12-month-ahead prediction that earnings growth would average 8% (median of 5%). In contrast to the overall positive trend, transportation and energy firms expect earnings to fall a further 10% in 2002.

"As CFOs, our survey participants are on the front lines of the recession every day," noted Dr. Graham. "From this unique perspective, they're predicting an end to the recession in 2002, with two-thirds predicting the rebound to begin in the second or third quarter. This is quite consistent with their point of view six months ago."

What business factor is keeping CFOs up at night?

Consumer spending was most-cited by CFOs as the business factor that will have the greatest influence on their company over the next six months, cited by 38% of all survey participants and 68% of those in the retail and wholesale industries. Global economic concerns ranked second, cited by 23%. Only 5% and 4%, respectively, cited fallout from September 11 or threat of future terrorism as major business factors. Fewer than 2% said that new tax laws would have a great influence. (Participants were asked to choose one of 12 factors.)

"In a special survey we conducted shortly following September 11, 57% of CFOs surveyed thought the terrorist attacks would have a direct negative impact on their company's earnings," Dr. Graham noted. "Still, we see clearly here that the terrorist threat is not superseding traditional business factors."

About the Survey

The CFO Outlook Survey, conducted by Financial Executives International and Duke University's Fuqua School of Business, interviewed the CFOs of U.S. companies electronically the first week of December. 291 CFOs responded from companies representing a broad range of industries, geographic areas and revenues. Among the industries represented are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, and banking/finance/insurance.

FEI and Fuqua have conducted surveys gauging the country's economic outlook from the perspective of corporate CFOs for the past six years. Detailed results of this survey as well as other CFO Outlook surveys are available at <http://www.duke.edu/~jgraham/fei.html> or www.duke.edu/%7ejgraham. (More)

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