



## **FOR IMMEDIATE RELEASE**

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## **CFOS OPTIMISTIC ABOUT ECONOMY AND EARNINGS**

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### **Companies Cautious in Spending Plans**

### **CFOs Give Views on Hot Issues in Financial Reporting**

**DURHAM, N.C. and MORRISTOWN, N.J., March 20, 2002** — Chief Financial Officers of U.S. companies overwhelmingly believe that the U.S. economy will be back to normal in the coming twelve months, and across the board they expect their companies to report increased earnings. In addition to economic predictions and forecasts for their own companies, participants in the quarterly “CFO Outlook Survey” provided their views on current hot spots in financial reporting: audit committees, auditors and financial reporting rules. The survey was conducted in March by Executives International (FEI) and Duke University’s Fuqua School of Business.

### **U.S. Economy and Corporate Earnings to Bounce Back**

All but one of the 260 surveyed CFOs think that GDP growth will be positive over the next 12 months, with GDP expected to grow 2.3%. More than three-quarters (78%) of the executives are more optimistic about the economy this quarter than they were last quarter, and only 3% are less optimistic. This optimism translates into an expected return of 7.2% for the S&P 500 index in the coming year.

Accompanying this renewed optimism in the economy, the CFOs predict a recovery in corporate earnings. Eight-eight percent of CFOs expect earnings improvement at their companies over the next 12 months, with a median growth of 10%. Though still projecting

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positive earnings growth, companies in the transportation/energy and retail/wholesale industries predict less robust earnings increases.

“CFOs are optimistic about the U.S. economy and earnings over the next twelve months,” said John Graham, finance professor at Fuqua and director of the survey. “However, they recognize that their companies are just now beginning to bounce back.”

Asked about their companies' current conditions, 24% say their companies have not begun to recover from the recession. Another 40% say their recovery is just beginning, 12% are moderately recovered, and 7% are nearly fully recovered. Seventeen percent say their companies never slowed down, even during the 2001 recession. The manufacturing industry is suffering the most, with 36% saying they are not at all recovered, and another 38% saying that their recovery is just now beginning.

### **Misleading Financial Reporting, Audit Oversight, and Whistle-Blower Protection**

In regard to current financial reporting concerns, 84% of the surveyed CFOs at public companies think that purposely misleading financial reporting among publicly held companies is rare (very or somewhat).

In terms of the aggressiveness of their own auditors at probing their accounting methods and financial reporting, 85% of public companies say their auditors are aggressive (very or somewhat). With respect to audit committee oversight, 83% say their audit committees are very or moderately proactive in asking tough questions.

Very few firms have formal whistle-blower procedures in place. Overall, only 23% of U.S. corporations report having whistle-blower protection, and in certain industries the numbers are much smaller: 15% of high-tech and 8% of manufacturing companies.

### **Financial Reporting Rules**

Asked their opinions about financial reporting, slightly more than half (52%) think that current disclosure rules do not adequately serve investors. Eighty-six percent of all CFOS surveyed think financial disclosures should be made easier to understand. Just over half (53%) think that companies should be prohibited from receiving auditing and consulting

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services from the same firm, and about one-third (32%) believe that companies should be required to periodically change auditors. CFOs were more equally divided about the speed required for reporting financial information to investors: 47% think the reporting should be speedier, while 53% do not.

### **Capital and Tech Spending, Employment, Inventory Restrained; Productivity and Prices, Up**

Even with optimistic views about the economy and earnings, U.S. corporations are still being cautious in their spending plans. Overall capital spending will be flat in the coming year (average growth of -0.2%), with one-third of firms expecting to cut capital spending. This is an improvement over last quarter, when 47% expected to cut capital spending and the overall growth was -5%. The outlook for technology spending is a bit rosier, with 79% of CFOs saying that their firms will increase tech spending, though the overall increase will average only 2.3% across all firms.

U.S. companies are also ready to modestly add to the employment rolls. Two-thirds of firms expect to increase their number of employees during the next year, compared to one-third that will reduce employment. Overall, employment is expected to increase by 0.4% in the next 12 months. By historical standards, this is still modest employment growth and is roughly in line with the 12-months ahead expectations CFOs have reported in each of the past two quarters. High-tech and transportation/energy firms expect to increase employment by more than 6%.

Along with this modest employment growth, companies will keep a lid on overtime, which is expected to increase only 0.5% in the next year. CFOs expect wages to increase by 3.2% averaged across all firms.

Corporations will also continue to cut costs by keeping lean inventories: 28% of CFOs say that their firms will reduce inventories, with an average *reduction* across all firms of 2%. This planned reduction is important because economists have been assuming that inventory restocking will be an important component of the economic recovery. However, productivity is expected to increase a booming 4.7% in the next 12 months with 97% of companies expecting some positive growth in worker output. Further, companies are planning to increase the prices of their products 2.2% in the coming year.

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Dr. Graham concluded that, "Overall, these numbers predict a return to the economic situation that existed two to three years ago: low inflation accompanied by employment and earnings growth. The chief engine of the return to positive growth in GDP will be improving worker productivity, tight cost controls, and increased consumer spending."

### **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 second week of March. Approximately, 260 CFOs from both public and private companies responded from 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](http://www.duke.edu/%7ejgraham).

Financial Executives International (FEI) is the leading advocate for the views of corporate financial management. Its 15,000 members hold policy-making positions as chief financial officers, treasurers, and controllers. FEI enhances member professional development through peer networking, career planning services, conferences, publications, and special reports and research. Members participate in the activities of 86 chapters, 75 of which are in the United States and 11 in Canada. For more information about FEI, visit [www.fei.org](http://www.fei.org). The Fuqua School of Business at Duke University was founded in 1970. Fuqua's mission is to educate thoughtful business leaders worldwide and to promote the advancement of business management through research. For more information, visit [www.fuqua.duke.edu](http://www.fuqua.duke.edu).

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