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**CFOs LESS OPTIMISTIC ABOUT ECONOMY AND COMPANY PROSPECTS,  
SURVEY SAYS**

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**Report Cautious Spending, Employment,  
Anxiety Over Consumer Confidence**

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**35% Chance of “Double Dip” Recession**

**DURHAM, N.C. and MORRISTOWN, N.J., September 25, 2002** — Chief Financial Officers of U.S. companies are less optimistic about the U.S. economy and prospects for their own companies than they were last quarter. In addition to these views, participants in the September “CFO Outlook Survey” provided their predictions about the economy, including the possibility of a double-dip recession, their own companies’ practices, and factors most affecting their expectations. The quarterly survey was conducted September 17-19 by Financial Executives International (FEI) and Duke University’s Fuqua School of Business.

**U.S. Economy - Double Dip?**

Financial executives are divided about the rest of 2002’s economic prospects. More than one-third (37%) of those surveyed are *less* optimistic about the U.S. economy this quarter than they were last quarter, while 31% say they are *more* optimistic, and 32% feel about the same. In the June survey by comparison, 21% said they were less optimistic and 47% felt more optimistic relative to the previous quarter. (Graph of past 4 quarters follows below.)

The majority of CFOs do not expect the U.S. to dip back into a recession. Asked the likelihood of a double dip, they predict a 35% chance as a consensus estimate. The CFOs in aggregate expect GDP growth of 2% over the coming year, a decrease from the expected 3% GDP growth expressed in last quarter’s survey.

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Consumer confidence is what worries CFOs the most. When given a list of nine potential risk factors affecting the US economy, 42% say that they are most concerned about consumer confidence and consumer spending. Other top cited risk factors are: global unrest and the risk of terrorism (combined response 20%); lack of capital spending (13%); and the stock market decline (12%).

In terms of positive economic factors, among a list of eight, an overwhelming 57% say that the resilience of the American economic system makes them feel most confident about prospects for the US economy. Interest rate levels was the second most frequently cited positive factor selected by 17% of survey respondents as making them most confident about the future.

### **Corporate Outlook**

Forty-five percent of CFOs say they are more optimistic about their own companies' prospects this quarter, but this percentage is down from last quarter's 54% who felt more optimistic about their companies. Twenty-nine percent are less optimistic, compared to only 17% less optimistic last quarter.

CFOs' dampened enthusiasm about their companies' prospects translates into reduced earnings projections. Fifty-nine percent of the surveyed firms expect earnings to grow in the fourth quarter, by 4% on average. Though still a positive outlook, this is significantly down compared to the June survey when 74% expected earnings growth in the third quarter, with 14% growth predicted.

"Despite the recession, despite a sliding stock market, despite other negative economic trends, CFOs have expressed consistent optimism about the economy and their companies in our surveys. Even though earnings projections are still positive, we're starting to see cracks in that optimism," said Dr. John Graham, finance professor at Fuqua and director of the survey.

### **Cautious Spending Plans**

U.S. corporations continue to keep a lid on capital spending. Sixty percent of CFOs say that they are spending cautiously while another 14% percent say their firm is holding off on capital spending completely. One in five companies is spending at a normal rate,

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and only 5% are spending ambitiously. This all translates into an expected increase in capital spending of only 1.2% in the coming quarter. This modest expected increase is significantly higher, though, than the expected growth of only 0.3% predicted in last quarter's survey.

Asked why they are being conservative with capital spending, over half (51%) of survey respondents say that uncertainty about the economy is the number one factor affecting their spending. Another 24% say that difficulty raising capital is the primary reason they are not increasing capital spending.

Technology spending will also be moderate, with an increase of only 1.1% expected in the fourth quarter. This is down from last quarter's predicted 1.9% quarterly increase.

Spending on advertising and marketing should grow by 0.7% next quarter, relative to this quarter's spending, just slightly down from last quarter's prediction.

### **Employment, Productivity**

Employment will shrink slightly during the fourth quarter. Thirty-five percent of firms expect to increase their number of employees, while 23% expect a reduction; 42% plan no net change. Overall, this translates into an expected reduction in employment of 0.1%. CFOs say that their firms are also expecting to cut overtime during the coming quarter, by an average of 0.4%. Finally, wages are expected to rise by 1.6%.

Productivity growth will be one of the few bright spots in the fourth quarter, with expected growth of 2%.

### **Inventory, Pricing**

Corporations will continue to cut costs by keeping lean inventories: 27% of CFOs say that their firms will reduce inventories, with an average reduction across all firms of 1%. This planned reduction is important because economists have been assuming that inventory restocking will be an important component of the economic recovery. CFOs have anticipated reductions in inventory every quarter this year.

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Chief financial executives expect the prices of their products to increase by a bare 0.3% in the coming quarter. This is a slower rate of inflation compared to last quarter, when prices were expected to increase by about 0.9% on a quarterly basis.

### **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 third week of September. 397 CFOs from both public and private companies from a broad range of industries, geographic areas and revenues responded. Among the industries represented are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, and banking/finance/insurance. Revenue-weighted means were provided for earnings, capital spending, technology spending, advertising spending, inventory and prices of products. Employee-weighted means were used for productivity (output per hours worked), wages, number of employees and overtime.

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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(Graph follows)

### CFO Optimism About U.S. Economy

"Are you more or less optimistic about the U.S. economy compared to last quarter?"

