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CFOs OPTIMISTIC ABOUT 2003

Expect Capital Spending Rebound, Increase in Hiring

Health Care and Stock Options Head List of Policy Concerns

DURHAM, N.C. and MORRISTOWN, N.J., December 11, 2002 — Chief Financial Officers of U.S. companies are much more optimistic about the U.S. economy than they were last quarter, according to the December "CFO Outlook Survey," conducted by Financial Executives International (FEI) and Duke University's Fuqua School of Business. Survey participants are also more upbeat about their own companies' prospects. This optimistic outlook will lead to increased hiring and capital spending, and earnings are expected to rise.

Improved Business Confidence and GDP Projections

Financial executives are decidedly more optimistic about the prospects for the U.S. economy than they were just one quarter ago. In the December survey, 56% of CFOs are more optimistic about the economy, 29% are as optimistic as they were last quarter, and only 15% are less optimistic. In the September survey by comparison, less than one-third (31%) were more optimistic, and 37% were less optimistic. (Graph of past 5 quarters is attached.)

Almost all CFOs (96%) expect positive GDP growth in 2003. The CFOs in aggregate expect GDP growth of 2.4% over the coming year, an increase from the expected 2.0% GDP growth expressed in last quarter's survey.

Positive Corporate Outlook, Earnings and Capital Spending To Increase

Fifty-two percent of CFOs say they are more optimistic about their own companies' prospects this quarter, an increase over the 45% who were more optimistic in last quarter's survey. Twenty-three percent are less optimistic, compared to 29% last quarter. A resounding 80% of banking, finance and insurance company CFOs are more optimistic about their companies' prospects this quarter.

CFOs' improved optimism about their companies' prospects translates into increased earnings projections. Three-fourths of the surveyed companies expect earnings to grow in 2003; the growth is predicted at an average 13.1%. In September, a much smaller 59% of survey respondents expected earnings growth in the fourth quarter of 2002.

Dividends may also be on the rise. Among firms that pay dividends, NYSE-listed companies in the survey predict a 4.1% increase in 2003; NASDAQ/AMEX firms predict a 2.6% increase; and private firms predict a 4.2% increase.

Capital spending appears on the rise. Twelve percent of surveyed companies are now spending "ambitiously," compared to only 5% last quarter. While 11% are holding off completely on capital spending, that's an improvement over the prior quarter when 14% weren't spending at all. One-quarter (24%) are spending at normal levels, and another 54% are spending cautiously.

Among those companies that are now spending cautiously, 37% say they will return to normal spending in 2003 and another 44% say they will return to normal in 2004. Only 5% of respondents say that capital spending will remain below normal beyond 2004.

"U.S. corporations have been very conservative about capital spending over the past 18 months, contributing to the economic recession and slow recovery. The expected increase in capital spending bodes well for a healthy economy in 2003," said Dr. John Graham, finance professor at Fuqua and director of the survey. "The longer term outlook is even better," he noted.

On average, companies expect to increase capital spending an average of 4.8% in 2003. A year ago, CFOs expected an average capital spending decrease of 5% in 2002.

Tech Spending

Spending on technology is expected to see a good boost in 2003, with 59% of companies spending more on technology. On average, technology spending will increase 4.9%. This is up from last year's modest prediction of a 1.4% increase in 2002. The mining and construction industry led all other industries, with a predicted 9.2% increase in technology spending, followed by the banking, finance and insurance industry, which expects an 8.5% rise.

Employment, Productivity

Employment will finally start to grow again in 2003. Fifty-four percent of companies expect to increase their number of employees, while 27% expect a reduction; 19% plan no net change. Overall, this translates into expected employment growth of 1.5%. However, firms in the construction, transportation, and manufacturing industries expect to reduce their number of employees in 2003.

CFOs say that their companies are expecting to cut overtime during the coming year, by an average of 2%. Finally, wages are expected to rise by 3.2%.

Productivity remains one of the bright spots in the economy, with expected growth of 4.3%. The technology industry led other industries dramatically, with a predicted productivity increase of 11.6%.

Inventory, Pricing

Corporations will continue to cut costs by keeping lean inventories: 31% of CFOs say that their firms will reduce inventories; however, on average, inventories will remain virtually flat, with an average reduction across all companies of only 1.0%. A year ago, inventories were expected to decrease by 3%. CFOs expect the prices of their products to increase by a bare 0.9% in the coming year. This slow rate of inflation corresponds to last quarter's expected quarterly increase of 0.3%.

Year-End Bonuses to Fall Slightly

Year-end bonuses will fall in 2003 by an average of 1.9%, compared to last year's bonuses. Bonus payments in the service and consulting industries will be particularly hard hit, with reductions averaging 12.4%. Bonuses in the high-tech and software industries will fall by 5.5% on average. The banking, finance and insurance industry expects and increase in bonuses of an average 2.4%.

Key Policy Issues: Health Care Costs and Stock Options

In the survey, CFOs were asked to respond to a list of 10 issues on President Bush's 2003 agenda, by ranking which issue was most important to their company. Forty-three percent selected a health care issue as most important. Specifically, 23% chose stopping a patients' bill of rights that exposes employers to liability from employees' health plan design; another

16% said that allowing companies to band together to purchase affordable health benefits was most important; and 4% selected adding a prescription drug benefit to Medicare.

The third most frequently selected response (by 12% of CFOs) was preventing the withdrawal of employee withholding taxes from stock option compensation; another 11% said that preserving the current method of option valuation was most important. Issues written in by many CFOs as important were the tax deductibility of dividends and tort reform.

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. 314 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 seven 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.

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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.

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(Graph follows)