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CFO SURVEY: ECONOMIC RECOVERY ACCELERATING

Rise in Key Corporate Indicators Predicted

Employment Still the Laggard

DURHAM, N.C. and FLORHAM PARK, N.J., September 30, 2003 — Chief Financial Officers of U.S. companies are optimistic about the U.S. economy and their own companies' prospects. They expect the U.S. recovery to become more robust, and they predict increases in corporate revenues, earnings, capital spending, employment and inventory. This outlook is more upbeat than it has been for over a year.

According to the September "CFO Outlook Survey," conducted by Financial Executives International (FEI) and Duke University's Fuqua School of Business, three out of four CFOs (74%) are more optimistic about the economy this quarter than they were the prior quarter and only 8% are less optimistic. This is the highest level of optimism recorded in more than a year.

The CFO optimism about the economy is reflected in higher expectations about Gross Domestic Product, with average expectation of 2.9% over the coming year (median expected increase of 3%). This prediction is higher than any GDP prediction during the past three quarters.

CFOs are also more optimistic about their own companies than they have been since this measurement began in June 2002. Two-thirds are more optimistic about their companies' financial prospects this quarter (see attached chart).

Eighty-five percent of the surveyed CFOs expect corporate earnings to increase in the coming year, with an average increase of 16.9% (median, 10%) over the next 12 months. Revenues

are expected to increase for 87% of firms, with an average increase in revenues of 8.1% (median increase of 8%).

“CFOs are out in front of what is happening in the company and play a key role in investment decisions – capital spending and people,” notes FEI President and CEO Colleen Sayther. “Hopefully, this cautious optimism is a catalyst for new investment.”

Capital Spending

Capital spending, an important economic indicator, is expected to increase by 9.0% in the coming year. This is a bigger increase than CFOs have predicted for the past year and a dramatic increase over last quarter’s expected rise of only 1.5%.

While capital spending is still stuck in the “cautious” mode at half (51%) of the companies, 10% of the surveyed CFOs say their companies are spending “ambitiously.” This compares favorably with just 6% and 7% spending at that level in the last two quarters.

CFOs say technology spending will increase by 4.9% during the next twelve months, an improvement over the 2.2% expected increase reported last quarter. Advertising spending is expected to increase 3.2%; last quarter’s prediction was “no growth.”

“Capital spending, more than any other corporate activity, will lift the economy,” said John Graham, a finance professor at Duke University and the director of the survey. “Over the last several quarters, CFOs’ optimism has wavered as they predicted only modest gains in spending. We think this quarter’s increased optimism, in tandem with increased spending expectations, is a strong sign for continued economic growth.”

More jobs – at some companies

Employment as an economic driver is improving, though modestly and slowly. Across all firms, employment is expected to increase by only 1.1% during the next 12 months, though overtime is expected to increase 1.9%. This expectation is an improvement over last quarter when hiring plans as well as overtime plans were flat.

Forty-two percent of CFOs say that their firms plan to increase employment, though only 4% are hiring aggressively. One-third (32%) say that they plan to hold the number of employees flat.

Twenty-six percent of companies still expect to lay off workers, though that percentage is lower than it has been for the past year. Of the 26%, 5% will plan to lay off aggressively, but 21% will only modestly decrease headcount.

Among the companies that are hiring at a less than normal rate, their hiring plans are roughly equally divided among three scenarios: hiring may never return to historic levels (36%), hiring expected to return to normal in 2005 or later (31%), and hiring expected to return to normal in 2004 (33%).

The survey also queried CFOs about the impact of overseas outsourcing. In contrast to public reports about some very large companies, shifting jobs to foreign countries has not affected domestic employment among 75% of the companies that are hiring at less than normal levels. However, 7% say that foreign hiring and outsourcing has contributed in an important way to their reduced domestic employment. The remainder (18%) call it a somewhat important reason for lower domestic hiring levels.

“The bottom line is overall employment should pick up in the coming year, though not as much as we might have hoped,” said Dr. Graham. “For many Americans, our recovery will continue to be jobless.”

Ms. Sayther of FEI added, “We’re sensing from our members that the ‘new normal’ may well be economic growth with only small gains in employment. We are in a period when risk management is in and risk taking is out, so it’s not surprising that companies are keeping a lid on their total compensation expenses.”

Inventory and Prices

Inventory expectations, like capital spending and employment, is another good indicator of the economy’s direction. CFOs this quarter say their companies plan to increase inventory 1.0% over the next year. While this is a modest increase, it becomes more dramatic when compared to the CFOs’ responses for the past 5 quarters, when they predicted a reduction in inventory, in some cases over 3%.

The CFOs say that their companies expect the prices of their products to increase by 1.7% over the next 12 months, an increase over the 0.8% price increase expected last quarter and the small decline in prices expected six months ago. “For now at least, deflation shouldn’t be a concern,” notes Dr. Graham.

According to the CFOs, companies are facing a 10.4% rise in healthcare costs. According to external sources, actual healthcare costs have increased by 14% over the past 12 months.

Dividends

Dividend increases should be robust, a consequence of changes in dividend tax rates. More than half of public firms represented in the survey expect to increase dividends in the coming year, with the increase averaging about 10%.

About the Survey

The CFO Outlook Survey, conducted by Financial Executives International and Duke University's Fuqua School of Business, interviewed 181 CFOs of U.S. companies electronically the third week of September. CFOs from both public and private companies and from a broad range of industries, geographic areas and revenues were represented. 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 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.cfosurvey.org>

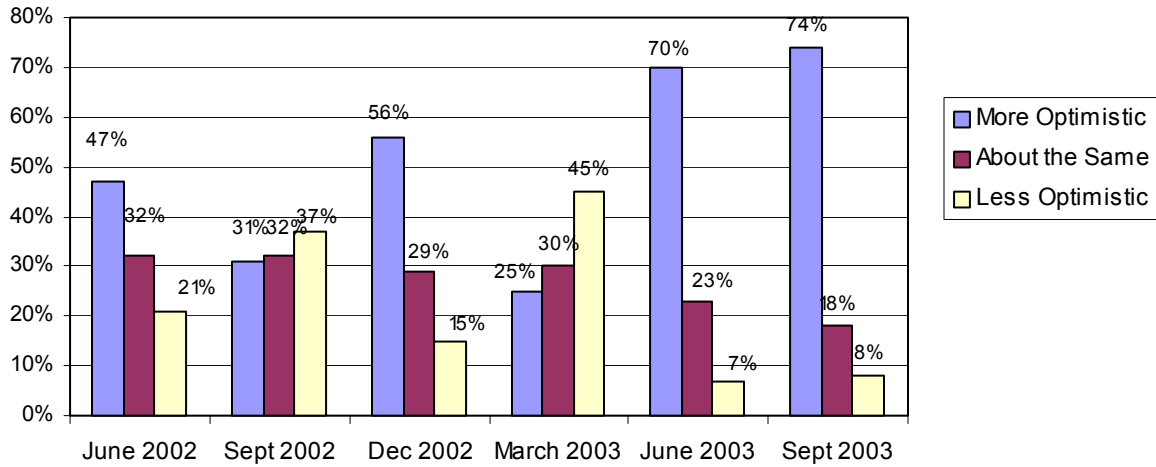
Financial Executives International (FEI) is the leading advocate for the views of corporate financial management. Its 15,000 members hold policy-making positions as chief financial officers, treasurers, and controllers. FEI enhances member professional development through peer networking, career planning 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.

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CFO Optimism About U.S. Economy

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



CFO Optimism About Own Firm

"Are you more or less optimistic about the financial prospects at your company compared to last quarter?"

