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CFO SURVEY: CAPITAL SPENDING, EMPLOYMENT TO SHOW ROBUST GROWTH

One in Four Companies Will Increase Offshore Employment

Bush and Kerry Rated Even on Domestic Issue; Bush Seen as Better for Economy

DURHAM, N.C. and FLORHAM PARK, N.J., March 31, 2004 — Chief financial officers of U.S. companies predict higher levels of capital spending and employment growth than they have for more than three years, according to the March quarterly "CFO Outlook Survey," conducted by Financial Executives International (FEI) and Duke University's Fuqua School of Business.

An increase in capital spending is expected at 69 percent of companies over the next 12 months, with an average increase of 11 percent, more than double the 5 percent increase expected last quarter. This quarter's cap-ex forecast is dramatically higher than predictions of just a year and a half ago when companies were looking at a contraction in spending.

In another positive trend, CFOs predict strong employment growth. Nearly three-fourths of the surveyed companies plan to increase the number of their employees in the coming year, while only 7 percent expect to reduce employment. Overall, the number of employees should increase by a robust 5 percent. This is a significant improvement over expectations of the past three years when forecasts ranged from a decline to less than 2% growth.

"CFOs hold the corporate purse strings," noted Colleen Sayther, President and CEO of FEI. "Most have been managing in an environment where spending at a 'normal' rate was not the norm, and spending 'ambitiously' was virtually non-existent. Their predictions this quarter about an improvement in capital expenditures is very good news for the economy, and combined with their predictions about employment levels, very good news for the nation's workforce."

The Offshore Component

One-quarter of companies in the March survey say that their firms outsource their workforce to offshore locations. Averaged across all companies, including those that do not offshore any employment, 8 percent of total employment is located outside the United States. Among the companies that already offshore employment, 18 percent of their workforce is non-U.S.

Going forward, twenty-seven percent of all companies expect to increase the amount of work sent offshore. Among companies that already employ offshore, 61 percent expect to increase their off-shore employment, while only 4 percent expect to decrease their number of off-shore employees. The CFOs report that their companies are satisfied with the quality of work being performed offshore. Over half (53 percent) say that the work quality is above average or excellent, and another 40 percent say it is at least average.

Offshore employment is most notable among manufacturing firms and among firms that have at least half of their sales in foreign markets. The primary reason that jobs are sent overseas is to reduce wages (73 percent), followed by reduced health care costs (31 percent), support of overseas operations (27 percent), and expansion of hours of service (17 percent).

The jobs being sent overseas are generally low- to moderate-skill. The tasks sent overseas vary and include manufacturing jobs, tech support, programming, engineering, back-office administration, and call and data center functions.

“The trend of increased offshore employment is worrisome from a long-run domestic employment perspective,” noted John Graham, professor of finance at Duke University and the director of the survey. “However, so many other forces can come into play, like robust U.S. economic growth and even legislative change, that there’s no clear view on the long-term future of offshore employment.”

Bush vs. Kerry

The Republican party appears to generate more confidence from corporate executives, at least in the CFO suite, than the Democratic party. More than half think President George Bush would do a better job as President than Senator John Kerry in the areas of GDP growth and the stock market. Bush scored dramatically better than Kerry in the area of homeland security. They were virtually even regarding how CFOs think they can handle domestic issues (Kerry edging ahead by .4 percentage point).

Other Survey Highlights

Following are CFO predictions:

- **Earnings growth**: expected to average a robust 30.6 percent during the next 12 months (median growth of 15 percent). Earnings increases are expected to average more than 30 percent for smaller firms (sales of less than $1 billion), and about 20 percent for larger firms (sales of at least $1 billion).
- **Sales revenue**: expected to increase by 10 percent in the next year, with large firms expecting an increase in revenues of about 7 percent, and smaller firms expecting an increase of about 15 percent.
- **Tech spending**: three-fourths of firms expect to increase tech-spending, with an average expected increase of 4 percent.
- **Health care costs**: expected to increase 10.2 percent.
- **Price inflation**: prices of products are expected to rise 2.8 percent, the highest level of "pricing power" expressed in at least two years.
- **Wages**: expected to increase by an average of 3.5 percent.
- **Mergers and acquisitions**: 16 percent increase in activity expected.
- **Economic optimism**: continues at near-record levels with a mean score of 67.5 (on a scale of 0 to 100). This compares to 55.4 reported one year ago but down slightly from the score of 71 reported during the fourth quarter of 2003. See chart at bottom of release.
- **Company optimism**: on the rise, with a mean score of 73.6, an all time high. This compares to the company optimism score of 62.7 reported one year ago and of 71.5 reported last quarter.
- **GDP prediction**: 3.2 percent growth, down slightly from last quarter's 3.6 percent.
- **U.S. Dollar**: to appreciate relative to the euro. By the end of the year the dollar is expected to appreciate seven percent and reach an exchange rate of 0.86 dollars to 1.0 euros.

"All indicators point towards a return to a stable, long-run growth trajectory for the U.S. economy and corporate America," said Dr. Graham.

About the Survey

The CFO Outlook Survey, conducted by Financial Executives International and Duke University's Fuqua School of Business, interviewed 216 CFOs of U.S. companies electronically the third week of March. CFOs from both public and private companies and from a broad range of industries, geographic areas and revenues are represented. Among the industries represented are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, and banking/finance/insurance. Revenue-weighted mean growth rates are provided for earnings, revenues, capital spending, technology spending, inventory, merger and acquisition activity, and prices of products. Employee-weighted mean growth rates are used for health care costs, productivity, number of employees and outsourced employment.

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.

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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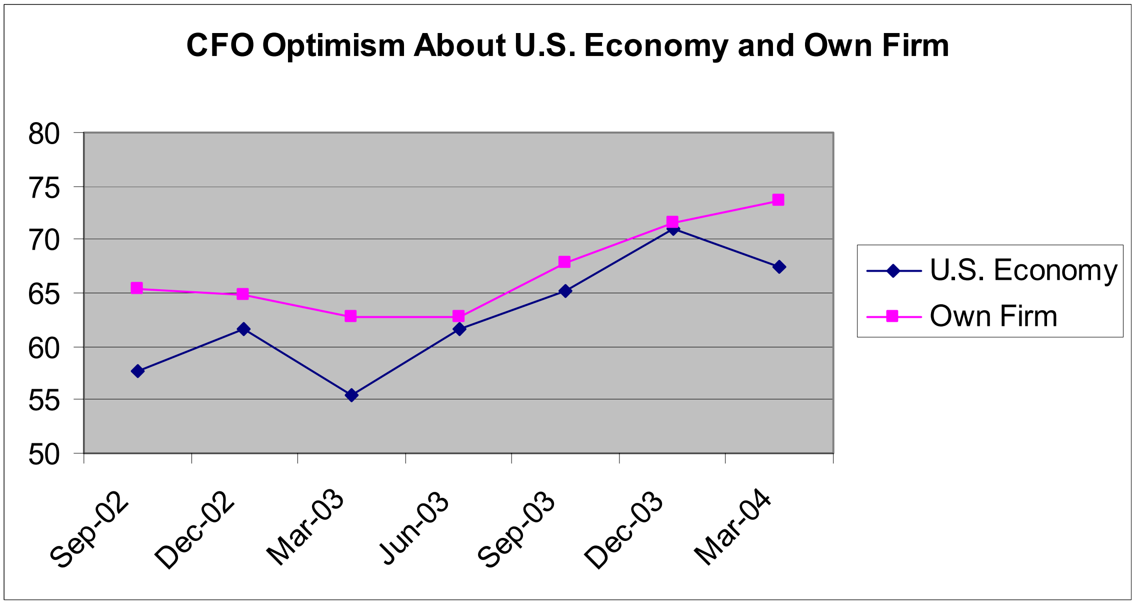
CFO Optimism About U.S. Economy and Own Firm
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U.S. Economy
Own Firm