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#### GLOBAL CFO SURVEY: CORPORATE OPTIMISM PLUMMETS IN RESPONSE TO HOUSING AND FUEL CONCERNS

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DURHAM, N.C. -- Chief financial officers are more pessimistic than ever about the U.S. economy and fear the effects of a housing bubble that might burst, of high fuel and health care costs, of increasing interest rates and of reduced pricing power. As a result of these concerns, CFOs predict only modest employment and capital spending growth. CFOs in the U.S. are more worried about terrorism, and are doing more about it, than are their European counterparts.

These are some of the findings of the September 2005 Duke University/CFO Magazine Business Outlook survey, which asked chief financial officers from a broad range of public and private companies globally about their economic projections. The survey of European CFOs was conducted jointly with Erasmus University RSM in the Netherlands. The survey was concluded August 28 and generated responses from 1,584 CFOs, including 374 from the U.S., 144 from Asia, and 1,066 from Europe. Results in this release are for the U.S. firms unless stated otherwise.

#### BUSINESS OPTIMISM AT NEW LOW, FUEL WORRIES ESCALATE

For the first time in the four years that the survey has gauged corporate optimism, there are more CFOs with growing pessimism about the U.S. economy than there are with increasing optimism. Nearly 37 percent of CFOs are more pessimistic about the national economy now relative to how they felt last quarter, and only 28.6 percent are more optimistic. The level of optimism is down sharply from last quarter when 40 percent of CFOs said they were more optimistic, and down even more relative to last year when 72 percent of CFOs were.

"This is the greatest increase in pessimism that we have seen," said Don Durfee, research editor of CFO magazine. "We've found that this optimism index predicts future economic growth quite well. In a situation like this, where the growth in pessimism outweighs the growth in optimism, we expect to see a slowdown in economic growth."

To understand the causes of the reduced optimism in the U.S, the survey asked executives to choose the top three items, from a list of 15, that are concerns for their companies. CFOs report

high fuel costs as the number one concern for U.S. firms, surpassing high health care costs for the first time since the survey has addressed these concerns. Other top concerns include rising interest rates, increased regulation and reduced pricing power.

European CFOs list increased global competition, world economic stability, increasing salaries and wages, and reduced pricing power as their top concerns. Asian firms are most concerned about high fuel prices, global competition, and rising salaries and wages.

#### CFOS SEE HOUSING BUBBLE IMPACT

Many economists believe that the U.S. housing market is overheated and due for a correction. More than two-thirds of CFOs believe that a decline in the U.S. housing market would harm their firms. Nearly 28 percent believe that a housing market correction would harm them moderately or greatly.

"One of the risks of any future Fed rate hikes is that they might increase mortgages rates sufficiently to burst the housing bubble," said John Graham, professor of finance at Duke's Fuqua School of Business and director of the survey. "CFOs are telling us that a housing correction will have spillover effects that will hurt corporate America."

#### CAPITAL SPENDING AND EMPLOYMENT GROWTH MODEST

U.S. capital spending plans remain modest. While 64 percent say they will increase capital spending in the next 12 months, the increase will average only 4.7 percent (down from 5.4 percent six months ago). Moreover, U.S. firms say that inventory accumulation will barely increase (up 0.4 percent). This finding stands in stark contrast to Asia, where capital spending is expected to rise by 11.7 percent.

"This rate of capital spending in the U.S. is barely sufficient to replace depreciated assets," said Duke finance professor Campbell R. Harvey, founding director of the survey. "Capital spending is very sensitive to future economic conditions. Faced with extreme energy prices and a housing market running out of control, CFOs realize that the economy is very vulnerable right now. The natural reaction is to roll back capital spending plans."

Half of U.S. firms expect to increase employment this year, and 28 percent expect to reduce employment. However, overall employment should increase 1.6 percent in the next 12 months. At the same time, outsourced employment should increase at 52 percent of firms, with growth averaging four percent.

#### TERRORISM ANXIETY INCREASES

U.S. firms report heightened anxiety about the threat of terrorism. "We asked CFOs to rank on a scale from zero to 100 the negative impact that the threat of terrorism is having on their bottom lines, with zero representing no impact and 100 indicating maximum negative impact," Graham said. "The terrorism index currently stands at 22.6 in the U.S., up from 18.0 six months ago, indicating that CFOs think the effects of terrorism on economic growth have increased.

"One-third of U.S. firms also say that the threat of terrorism is significantly affecting their bottom lines," Graham said. "We were also surprised to see that U.S. firms are much more active than their European counterparts in responding to the threat."

More than 60 percent of U.S. firms report having taken actions in response to concern about terrorism. Half have increased security at their facilities, 27 percent have created redundant operating systems and 19 percent have created redundant financial systems. Only 12 percent have restricted travel. In contrast, only one-fourth of European firms have made changes in response to the threat of terrorism. Across Europe, only 14 percent of firms have increased

security at their facilities. Even in the U.K., only 12 percent of companies have increased security at their facilities.

#### INCREASED PRICE INFLATION, M&A, CASH ON BALANCE SHEET

Price increases at U.S. firms are expected to average 2.8 percent next year, an increase from the 2.1 percent price increase anticipated last quarter. Nearly half of the surveyed firms say that they will increase mergers and acquisitions (M&A) activity in the coming year. Fifty-two percent of CFOs say that their firms plan to increase their cash holdings, with an average increase of 3.9 percent.

#### RESULTS UNIQUE TO EUROPE

More than 30 percent of European CFOs say that European governments are becoming more protectionist, and another 53 percent say that they are as protectionist as they have always been. Forty-two percent of European CFOs say that this protectionism hurts their company's financial performance.

CFOs predict that European employment will be flat. Thirty-six percent of firms expect to lay off employees, while 38 percent expect to increase their number of employees. Overall, employment is expected to increase by 0.15 percent, an improvement over last quarter's predicted decline of 0.7 percent.

Forty-two percent of European financial executives are more optimistic, and one-fourth are more pessimistic. The Europeans are notably more optimistic than last quarter, when half were more pessimistic about their national economies, and only 16 percent were more optimistic.

#### RESULTS UNIQUE TO ASIA

Asian firms will expand rapidly, with an expected 11.7 percent in capital spending and a remarkable 7.2 percent increase in employment, according to the survey. Nearly 60 percent of Asian CFOs are more optimistic about their regional economies. Some warning signs are also appearing, however. The CFOs expect salaries and wages to increase by 6.5 percent, outstripping productivity growth. They expect earnings to increase only 8.8 percent in Asia, down from a 10 percent increase expected last quarter.

The terrorism index in Asia is 27 (out of 100), and 30 percent of Asian firms say that the threat of terrorism is affecting their bottom lines. More than half of Asian firms have taken specific actions in response to terrorism, with one-third increasing security at facilities and one-fourth reducing employee travel.

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About the survey: Among the industries represented in the survey 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 and prices of products. Employee-weighted mean growth rates are used for health care costs, productivity, number of employees and outsourced employment. All of these weighted numbers are for public firms only. Except if explicitly noted, all other numbers are for all firms, including private.

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