

Global CFO Survey: Economy Struggling, but Bottoming Out

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CFO SURVEY: ECONOMY WILL REMAIN SLUGGISH IN 2008 WITH LAYOFFS AND MEAGER CAPITAL SPENDING EXPECTED; RECOVERY TO BEGIN BY SUMMER 2009

(Note to editors: For additional comment, see contact information at the end of this release.)

DURHAM, N.C. – Chief financial officers say they will reduce domestic jobs and make few capital expenditures. They also expect inflation to climb and the credit crisis to continue to spread, with more firms directly affected this quarter than last quarter. But many CFOs believe the economy is beginning to bottom out and will rebound next summer.

These are some of the findings of the third quarter 2008 Duke University/*CFO Magazine* Global Business Outlook survey, which asked 1,299 CFOs from a broad range of global public and private companies about their expectations for the economy. (See end of release for survey methodology.) The survey has been conducted for 50 consecutive quarters.

SUMMARY OF FINDINGS

-- Half of CFOs say the U.S. economic recovery will begin by mid-2009. Only 12 percent expect recovery to begin in 2008.

-- Domestic employment is expected to fall 1.6 percent over the next 12 months. Capital spending is expected to increase only 0.6 percent.

-- Forty-two percent of CFOs are more pessimistic about the U.S. economy this quarter, which is an improvement from last quarter when 53 percent were more pessimistic. Twenty-nine percent are more optimistic this quarter.

-- Weak consumer demand continues to be the biggest concern for CFOs. The credit markets and difficulty in attracting and retaining high-quality employees are also significant worries.

-- Among firms directly hurt by the credit crunch, 60 percent say credit is hard to find, 53 percent say their borrowing costs have increased (by 102 basis points on average) and 29 percent have had difficulty arranging a line of credit. Among these same firms, more than 60 percent say they will reduce investment or hiring in response to the adverse economic conditions.

U.S. ECONOMY WEAK BUT STABILIZING

"The U.S. economy is struggling, but there are signs that we are bottoming out," said John R. Graham, director of the survey and a finance professor at Duke's Fuqua School of Business. "Pessimistic CFOs outnumber optimists, capital spending will be weak, employment will fall and the credit crisis continues to affect the economy. However, there are signs that the economy will not deteriorate further; the ratio of optimists to pessimists has improved." (See chart at the bottom of this release).

"In addition, CFOs expect the economic downturn to end by next summer, the same timing they forecast in June's survey," Graham added. This is important because it indicates the end of the difficult period is in reach -- the end is not moving farther away like a mirage in the desert, staying forever out of reach."

Duke international business professor Campbell Harvey, founding director of the survey, added: "Our results are consistent with a business cycle shaped like a bathtub, with a gradual slide into an extended slowdown followed by a gradual slope upward. The halt in capital spending and the evidence of a slash in employment are consistent with a prolonged period of lethargic growth."

One lingering negative is the current domestic employment picture. CFOs expect to reduce domestic workforces by 1.6 percent. At the same time, executives say prices of their own products will rise by 3.6 percent over the next 12 months. This poor consumer outlook is compounded by capital spending that is expected to increase by only 0.6 percent. Earnings are expected to grow modestly at 5.5 percent, an improvement over last quarter's 3 percent expectation.

TOP CONCERNS: CONSUMER DEMAND, CREDIT MARKETS, FINDING QUALIFIED EMPLOYEES

Weak consumer demand is the top corporate concern this quarter. CFOs also continue to worry about credit markets, which are devastating lower-rated firms. Nearly 70 percent of these companies have been hurt directly by the credit crunch, with the cost of credit increasing by 110 basis points among firms rated B or lower.

Difficulty in attracting and retaining high-quality employees is the top concern CFOs have about their own companies' operations, followed by the difficulty of planning in the uncertain economic environment. Fuel costs are less of a concern than they were last quarter, when they were the top concern.

"U.S. companies will continue to constrain capital spending and expansion plans until they see signs the economy is improving," said Kate O'Sullivan, senior writer at *CFO Magazine*. "They are particularly worried about weak consumer demand. Unfortunately, the export growth that has propped up the U.S. economy may wane going forward, given a strengthening dollar and a worsening outlook overseas. Therefore, in the near term, we do not expect to see the business sector rush to the economy's aid."

PESSIMISM OVERSEAS: BAD NEWS FOR U.S. EXPORTS

Optimism is at a four-year low in Europe, with pessimists outnumbering optimists by a 7-to-1 margin. (See chart at bottom of release.) Pessimists outnumber optimists by a 2-to-1 margin in Asia, the third consecutive quarter with optimists in the minority. Chinese pessimists outweigh optimists by a 5-to-1 margin. With overseas companies growing more pessimistic, and the U.S. dollar having recently increased in strength, it seems unlikely U.S. export growth will continue to sustain the U.S. economy.

EUROPE

European companies will be actively pursuing mergers and acquisitions, with 52 percent of European respondents saying their firms plan to buy part or all of another firm.

Among European firms affected by the credit crisis, 70 percent will delay capital spending plans and 55 percent will curtail hiring plans in response.

ASIA

Weakness in Western credit markets is affecting Asian firms. Among Asian companies that have

previously secured debt from banks in the West, 60 percent say they either have already borrowed from local Asian banks instead or are considering such a move.

Inflation is having a significant negative effect on Asian companies. Seventy-one percent say they have established a substantial cost-cutting program in response to rising inflation, 67 percent say that they have changed their sourcing practices (by consolidating suppliers, for example), and nearly half have reduced capital spending or hiring plans in response to rising inflation. Another 44 percent have started hedging with financial instruments to ward off the effects of inflation.

CHINA

Eighty-two percent of Chinese CFOs say they are worried about an economic slowdown now that the Beijing Olympics have ended. Among those concerned, 70 percent are worried about a collapse of the stock market or real estate market, and more than three-fourths think the slowdown of the world economy will hit the Chinese economy now that the buffer from the Olympics is gone. More than half say there is lackluster growth in the domestic Chinese market, and 51 percent say there is overcapacity in the manufacturing sector.

Sixty-two percent of Chinese CFOs say their company has been affected by their government's continued tightening of credit. More than half say they have been affected by a shortage of electricity or fuel (though only 12 percent say the effect has been significant).

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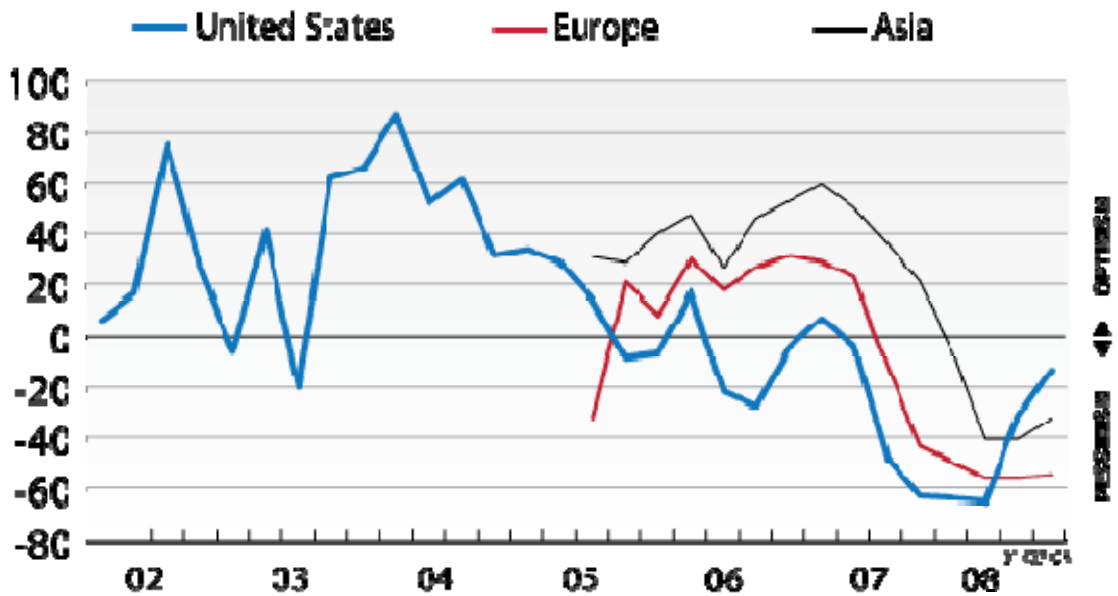
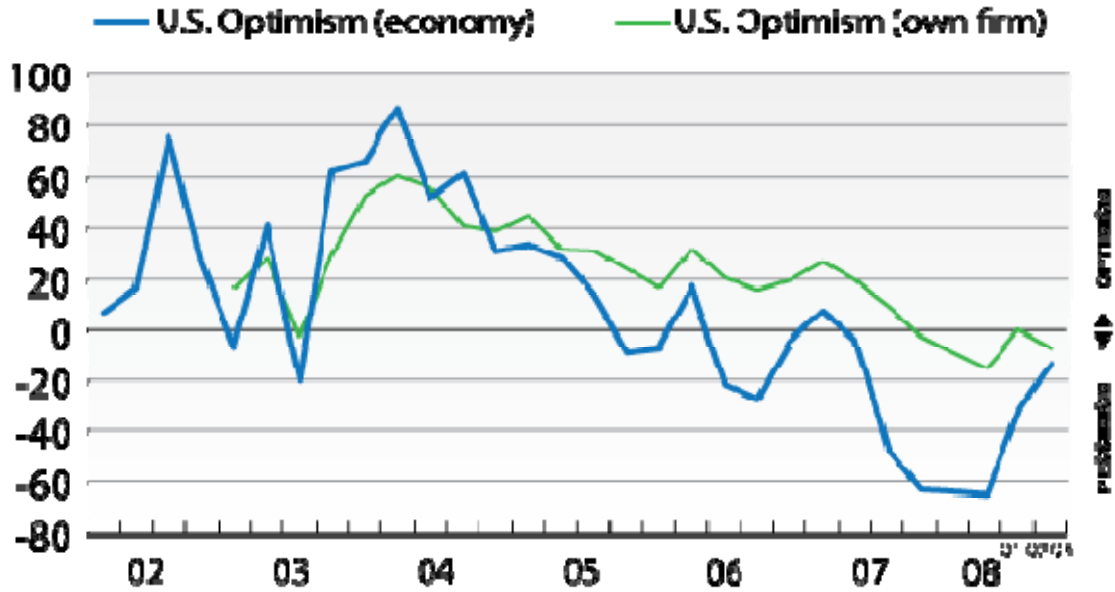
Detailed results, including tabular summaries of the numbers in this release and results from previous surveys, are available at <<http://www.cfosurvey.org>>.

About the survey: This is the 50th consecutive quarter that the Duke University/*CFO* Magazine Global Business Outlook survey has been conducted. The survey concluded September 5, 2008 and generated responses from 1,299 CFOs, including 524 from the U.S., 215 from Europe, 212 from Asia (not including China), and 348 from China. The survey of European CFOs was conducted jointly with Tilburg University in the Netherlands. Results in this release are for U.S. companies, unless otherwise noted. Among the industries represented in the survey are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, service/consulting 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. The earnings, dividends, share repurchases and cash on balance sheet are for public companies only. Unless explicitly noted, all other numbers are for all companies, including private companies.

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Optimism diffusion measures the percentage of CFOs who have increased optimism minus the percentage who have decreased optimism (through September 2008).



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