

Global CFO Survey: Economy bottoming out, but lethargic recovery ahead

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CFO SURVEY: CFO OPTIMISM IMPROVES, BUT EMPLOYMENT OUTLOOK IS BLEAK

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

DURHAM, N.C. -- CFO optimism has improved around the world, especially in Asia. However, in the near term, U.S. and European chief financial officers say their companies do not plan to start hiring or increase capital spending. Most firms will take several years to return to pre-recession employment levels and some expect to operate with permanently reduced workforces.

These are some of the findings of the most recent Duke University/CFO Magazine Global Business Outlook Survey. The survey, which concluded Sept. 11, 2009, asked 1,537 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 research has been conducted for 54 consecutive quarters.

SUMMARY OF FINDINGS

-- CFO optimism continues to increase, with US CFOs rating the overall economy at 56 on a scale of 1-100 (compared with 52 last quarter). Internationally, Asian CFOs rated their optimism at 68 (63 last quarter), Chinese CFOs at 71 (70 last quarter), and European CFOs at 52 (47 last quarter). (See graph at bottom of release.)

-- Forty-three percent of U.S. companies expect to reduce their workforce over the next year. Among companies that have recently laid off employees, only 13 percent say their workforce will return to 2007 levels sometime next year. In contrast, companies plan to increase their offshore workforces by about 3 percent over the next year.

-- Capital spending is expected to continue to decline over the next 12 months, with U.S. companies expecting to decrease capital spending by 3 percent on average. Of the corporate spending deferred since the start of 2008, 58 percent of that spending has been postponed indefinitely and one-fourth cancelled permanently.

-- Credit problems remain, with 56 percent of U.S. firms reporting they are adversely affected by credit market conditions, with higher borrowing costs being the biggest problem. Lack of credit availability and restrictive borrowing terms are also problematic.

-- CFOs' top concerns about the overall economy include weak consumer demand, federal government policies, and credit markets. Top concerns about their own businesses include difficulty planning due to economic uncertainty, liquidity management and maintenance of employee morale.

ARE LOST JOBS GONE FOREVER?

More job losses are on the way in the U.S., with 43 percent of companies planning to reduce employment over the next 12 months, compared to only 30 percent that anticipate increasing their workforce. In Europe, 56 percent expect to reduce employment while 18 percent expect to hire workers. In Asia, about 60 percent of companies expect to increase domestic employment.

"The economy is showing signs of life in the U.S., with CFOs expecting earnings to grow over the next year and corporate optimism improving again this quarter," said Kate O'Sullivan, senior writer at CFO Magazine.

"While this suggests that the overall economy is stabilizing, the employment picture continues to deteriorate," O'Sullivan added. "Western economies continue to operate conservatively in terms of head count. This is troubling because job security – and along with it, the entire consumer sector – will remain under stress for the foreseeable future. We expect it will take two to three years, maybe longer, before employment returns to year-end 2007 levels. This will dampen economic growth for several years."

Sixty-two percent of U.S. companies indicate they have fewer employees now than at the end of 2007. Among these firms, more than half do not anticipate reaching pre-recession employment levels again until 2012 or later.

"The good news is that employment losses are expected to moderate, with CFOs saying they expect to decrease their work forces by 3 percent on average over the next year, compared to an alarming 6 percent in last quarter's survey," said Campbell Harvey, founding director of the survey and international business professor at Duke's Fuqua School of Business. "But the bad news is two-fold: first, the outlook points to increased unemployment; second, there is an expected surge in outsourcing, suggesting many U.S. jobs could be lost forever."

CAPITAL INVESTMENT, WAGES, EARNINGS, PRODUCTIVITY

Capital spending is expected to fall by 3 percent over the next year in the U.S. In Europe, capital spending cuts will outnumber increases (41 percent will decrease spending, 31 percent will increase it), while in Asia capital spending will rise at about 60 percent of companies.

"Capital spending will decline slightly over the next year, after falling markedly for the past two years," said John Graham, a finance professor at The Fuqua School of Business and the survey's director. "This is an improvement, but for full economic recovery we need to see

capital spending increase by double digits, rather than simply treading water as we're seeing now."

On a more positive note, CFOs expect modest growth in earnings (up 3 percent), wages (1 percent), and productivity (2.5 percent) over the next year. They also expect to begin stockpiling cash reserves again in 2010 (up 4 percent).

CREDIT MARKET CONCERNS AND VALUATION EFFECTS

Fifty-six percent of U.S. companies say their firm is still being adversely affected by credit market conditions. Among those negatively affected, two-thirds say the cost of credit is their biggest problem, and half say credit is simply less available. Forty-seven percent say they now face more restrictive terms when borrowing, such as being required to post higher collateral.

"We are still seeing a significant divide in the credit market between firms able to secure sufficient credit and firms struggling to access the credit they need," Harvey said. "Nearly 70 percent of companies rated BBB or lower say credit markets are constraining their ability to operate."

Lack of affordable credit has led to numerous corporate initiatives being cancelled since the start of the credit crunch. Among attractive investment projects that were skipped in the past 18 months, CFOs say 58 percent of those projects have been postponed indefinitely and 26 percent have been permanently cancelled.

"Abandoning or putting off investment projects can poison the future job market," Harvey said. "The credit constraints caused by the crisis hit small- and medium-sized businesses the hardest, and these are the firms that drive employment growth. If investment today means jobs tomorrow, we are likely headed toward a prolonged and painful period of lethargic growth."

ADDITIONAL EUROPEAN RESULTS

European CFOs are most concerned about weak consumer demand, followed by worries about the banking system and their firms' own liquidity management.

Nearly 60 percent of European firms have a smaller work force now than they did at the end of 2007. Among these companies, fewer than half say employment will return to historic levels before 2012.

Among companies that have a bank line of credit, the typical European company has drawn nearly half of available funds, up from 38 percent drawdown one year ago.

European firms are taking a variety of actions in response to economic conditions, including reducing bonuses or freezing salaries (58 percent), reducing staff (57 percent), postponing or canceling investment (48 percent), and reducing marketing and advertising (47 percent).

ADDITIONAL ASIAN RESULTS

Top internal concerns among Asian companies include difficulty planning due to economic uncertainty, working capital and liquidity management, difficulty attracting and retaining qualified employees, and maintenance of employee morale.

Capital spending will increase nearly 6 percent in China, but will remain flat in the rest of Asia.

Nearly half of Asian CFOs expect a diminished role for the U.S. dollar in regional trade. Three-fourths of Chinese CFOs expect China will decouple its currency from the U.S. dollar.

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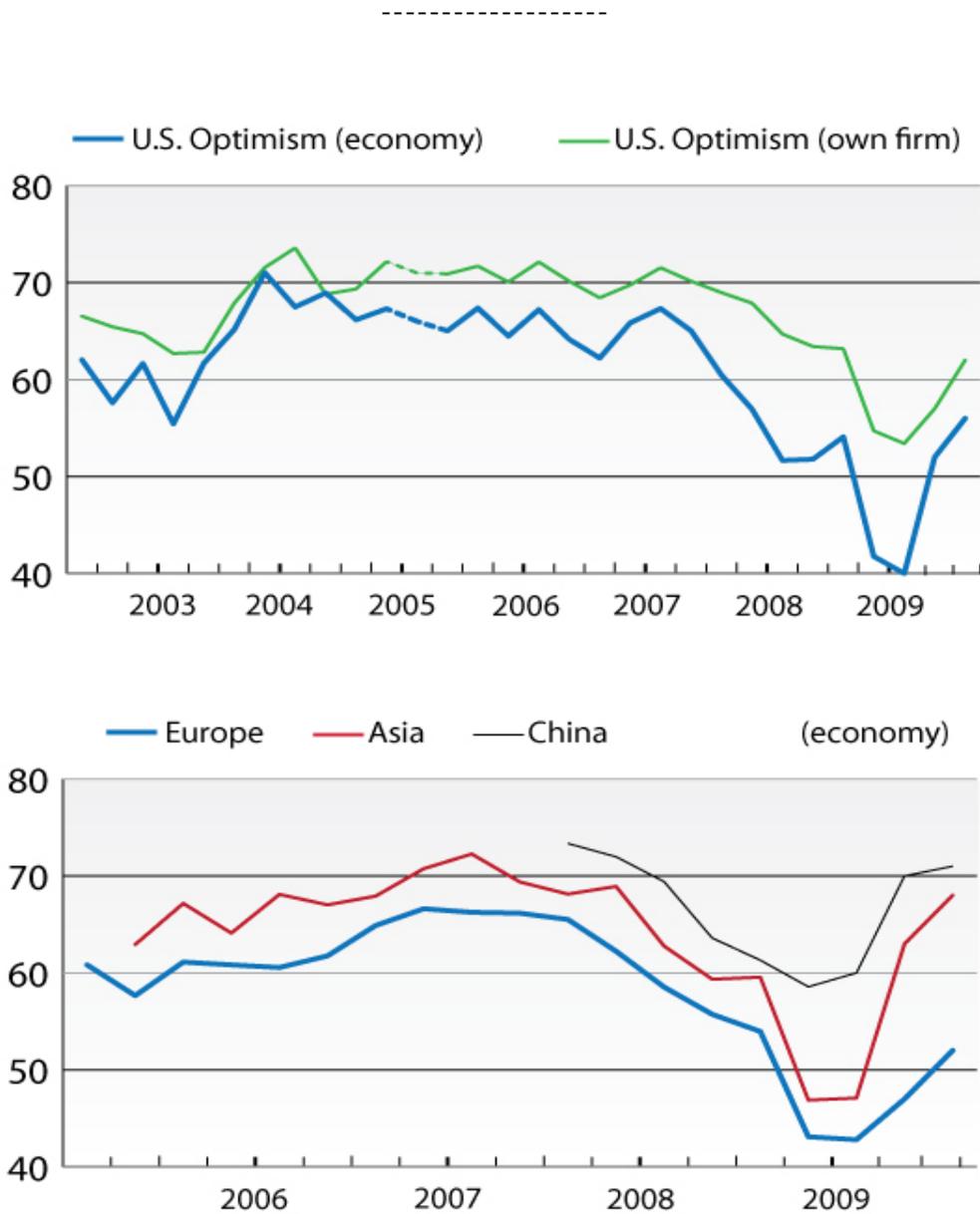
Detailed results, including tabular summaries of the numbers in this release and results from previous surveys, are available at <http://www.cfosurvey.org>.

About the survey: This is the 54th consecutive quarter that the Duke University/CFO Magazine Global Business Outlook survey has been conducted. The survey concluded September 11, 2009, and generated responses from 1,537 CFOs, including 657 from the U.S., 270 from Europe, 196 from Asia (not including China), and 414 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.

The Global Business Outlook surveys a wide range of companies (public and private, small and large, many industries, etc.), with the distribution of responding firm characteristics presented in online tables. The responses are representative of the population of CFOs that are surveyed. Confidence ranges are reported in the online top line and banner tables for most of the numeric variables. A typical confidence range is approximately two percentage points (e.g., health care costs are expected to increase by 7 percent with a 95 percent confidence range of 6percent to 8 percent). Among the industries represented in the survey are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, service/consulting and banking/finance/insurance. The average growth rates are weighted by revenues or number of employees; for example, one \$5 billion company affects an average as much as 10 \$500 million firms. 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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