Growth Hampered by Tight Credit Markets, Firms Stockpiling Cash

----
DUKE UNIVERSITY NEWS
Duke University Office of News & Communications
http://www.dukenews.duke.edu

FOR IMMEDIATE RELEASE: Wednesday, Dec. 16, 2009

CONTACTS: Kate O'Sullivan (CFO Magazine)
(617) 345-9700 ext. 214
kateosullivan@cfo.com
and
Chris Privett (Duke)
(919) 660-8090
chris.privett@duke.edu

TIGHT CREDIT MARKETS DAMPENING LONG-TERM GROWTH

DURHAM, N.C. - Nearly half (44 percent) of U.S. companies say banks are less willing to lend today than they were in Summer 2008 (before the Lehman Brothers collapse) compared to only 13 percent who say banks are more willing. This is among the findings in an analysis of credit markets released today week by Duke University and CFO Magazine.

Small firms are particularly hard hit, with half of companies with annual sales revenue less than $500 million saying bank lending is less available, compared to about one-third of companies with revenues in excess of $1 billion.

"These tight lending standards are leading many firms to pass up valuable investment projects, which will harm future employment growth," said Campbell Harvey, founding director of the Duke University/CFO Magazine Global Business Outlook Survey (from which the analysis was drawn) and international business professor at Duke's Fuqua School of Business. "The negative credit conditions for small firms are especially problematic because job growth originates primarily with small- and medium-sized firms. Indeed, in 2010 the largest firms plan to slash 2.52 percent of their workforce while the smallest firms are on track to hire an additional 1.47 percent. Credit tightness is constraining small firms from expanding hiring further."

CASH MANAGEMENT AND CREDIT LINES

U.S. firms continue to stockpile cash. Cash holdings on the balance sheet increased by 7 percent in 2009 and are expected to grow another 4 percent in 2010.

"Companies are saving primarily as a risk management tool," said John Graham, a finance professor at Duke and the director of the survey. "The number one reason CFOs say they are hoarding cash is 'just in case', that is, because of uncertainty about the overall economic environment. The second most common objective of building cash reserves is to show a healthy balance sheet to bankers and investors. In contrast to the U.S., European companies expect cash holdings to fall by 5 percent in 2010, which will aggravate tight lending conditions there."

Reliance on credit lines decreased in 2009, as companies sought to preserve debt capacity for future use. Forty percent of firms said they used less credit so they could shore up liquidity, and 31 percent said they wanted to improve credibility with bankers and investors. Another 40 percent indicated that weak demand for their product had reduced the need for credit line funding.

COMPENSATION

Nearly half of U.S. companies, and 40 percent of Asian and European companies, plan to change the mix of compensation during the next pay cycle. Among those changing, the emphasis is on moving away from equity-based compensation and bonuses toward more of a fixed salary emphasis.

"For years the mantra has been to tie executive pay to company performance and stock returns," said Kate O'Sullivan, senior editor at CFO Magazine. "Because of the perception of excessive risk-taking and purportedly bad incentives tied to stock and option compensation, there has been a global move towards cash compensation. Paying the price of this change in compensation mix may be the executives who have been less focused on shareholder return and who may soon find themselves unemployed for that reason."

– – – –

For additional comment, contact CFO Magazine's Kate O'Sullivan at (617) 345-9700 (x214) or kateosullivan@cfo.com, or Duke's John Graham at (919) 660-7857 or john.graham@duke.edu. For commentary about European results, Tilburg's Kees Koedijk at +31-6-55186755 or C.Koedijk@uvt.nl.

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 55^{th} consecutive quarter the Duke University/CFO Magazine Global Business Outlook survey has been conducted. The survey concluded December 11, 2009, and generated responses from 1,431 CFOs, including 567 from the U.S., 184 from Europe, 334 from Asia (not including China), and 346 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 6 percent 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 would. 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.

CFO Magazine and CFO.com are owned by CFO Publishing, an Economist Group business. With a rate base of 450,000, CFO is the leading business publication for C-level and senior financial executives. For more information, visit <cfo.com>.

Duke's Fuqua School of Business was founded in 1970. Fuqua's mission is to educate business leaders worldwide and to promote the advancement of business management through research. For more information, visit www.fuqua.duke.edu.

###