

Global CFO Survey: Spending and Earnings to Jump, Employment Flat

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CFO SURVEY: SPENDING AND EARNINGS TO INCREASE SHARPLY; EMPLOYMENT FLAT;  
TIGHT CREDIT AND INVENTORY DEPLETION POSE RISKS

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

DURHAM, N.C. – Chief financial officers in the United States expect strong growth in business spending and earnings this year, but plan only modest hiring and the continued outsourcing of jobs. And several significant risks remain, including tight credit markets, weak consumer demand and decreasing inventory levels.

These are some of the findings of the most recent Duke University/CFO Magazine Global Business Outlook Survey. The survey, which concluded Feb. 26, asked nearly 1,400 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 56 consecutive quarters. Presented results are for U.S. firms unless otherwise noted.

#### SUMMARY OF FINDINGS

-- Earnings are expected to soar 12 to 14 percent and capital spending will increase 9 percent in the next 12 months. Research and development and tech spending will increase 4 percent. This marks the first positive movement in these categories in more than a year.

-- Full-time domestic employment in the U.S. will increase 0.2 percent and temporary hiring will increase 0.5 percent, while both will fall more than 1 percent in Europe. Asian employment is expected to jump about 5 percent. Fifty-six percent of U.S. companies say their employment will not return to pre-recession levels until 2012 or later.

-- Inventory will decrease at nearly half of U.S. firms.

-- CFO optimism has improved from recession lows, but remains below long-run averages. U.S. and European optimism significantly lag behind Asian optimism. (See graph at bottom of release.)

-- Thirty-one percent of U.S. firms will be active in mergers and acquisitions in 2010.

-- CFOs' top economy-wide concerns include weak consumer demand, federal government policies, price pressure and credit markets. Top concerns about their own businesses include maintaining profit margins, low employee morale and liquidity management.

#### THE GOOD NEWS: STRONG BUSINESS SPENDING AND EARNINGS GROWTH

Capital spending is expected to increase 9 percent over the next year. Tech spending and research and development spending are expected to rise 4 percent.

"For the first time since 2003, capital expenditures are expected to increase by 9 percent this year, providing a much-needed boost to economic growth," said Kate O'Sullivan, senior editor at CFO Magazine. "However, to put this in perspective, the increased business spending follows years of belt-tightening and is therefore growth from a relatively low starting point."

Earnings are expected to soar, though again from low base levels. U.S. and Asian companies expect 12 to 14 percent earnings growth over the next 12 months, while earnings will grow less than 4 percent in Europe.

#### EMPLOYMENT STABILIZING, BUT INVENTORIES TO DECLINE

About half of U.S. CFOs say they will increase full-time domestic employment in the next year, twice as many as say they will decrease their workforce. Net full-time employment is expected to increase 0.2 percent and temporary employment 0.5 percent. Finance chiefs expect outsourcing to rise nearly 4 percent.

"Certainly, it is good news that the employment bleeding has stopped," said John Graham, professor of finance at Duke's Fuqua School of Business and director of the survey. "CFOs, however, still expect a virtually jobless recovery in 2010. Looking further ahead, it will be two to three years, maybe longer, before employment returns to pre-recession levels at most firms. CFOs say they are keeping workforces low due to weak consumer demand and increased efficiency in their production processes."

"The uptick in business spending indicates the economy has bottomed out. But the recovery might be short-lived if the employment picture does not begin to improve," Graham added. "Another note of concern is the corporate sector's expectation to decrease inventories, exerting downward pressure on overall GDP growth."

Forty-seven percent of U.S. CFOs say they will decrease inventory in the first half of the year, compared to only 15 who percent expect an increase. Inventories will decline as a result of supply chain improvements that allow firms to operate with lean inventory and because weak consumer demand has led to a glut of inventory for some products.

#### TIGHT CREDIT POSES A SIGNIFICANT RISK

"In 2009, credit contracted at a record pace for the post-war period," said Campbell Harvey, founding director of the survey and international business professor at Fuqua. "CFOs are telling us the credit crunch has not abated. Seventy percent of CFOs of small and mid-sized businesses say credit conditions are worse or much worse compared with 2007. This

explains why businesses have forecast a trivial 0.2 percent growth in employment for 2010, which will lead to no meaningful change in the unemployment rate. It is hard to run the economic engine without any financial lubricant. This prolonged financial crunch poses a real risk of sending us into a double-dip recession."

#### TOP CONCERNS

The top two concerns for U.S. CFOs are weak consumer demand and the federal government's agenda. U.S. CFOs, who expect to raise the prices of their products by only 1 percent, are also worried about price pressure from intense competition.

The top internal concerns include the pressure on profit margins and maintaining employee morale.

#### ADDITIONAL EUROPEAN RESULTS

The picture in Europe remains bleak. In the next 12 months, European CFOs expect to cut domestic full-time workforce (-1.2 percent), part-time employment (-4.7 percent) and advertising budgets (-2.7 percent). Capital spending will remain flat and inventories will decline.

Borrowing in Europe has become more difficult: 30 percent of finance executives say borrowing conditions have deteriorated, compared to 16 percent saying conditions have improved in the past six months.

#### ADDITIONAL ASIAN RESULTS

Top Asian concerns focus on intense price pressure, weak consumer demand and domestic competition.

Finding and retaining qualified employees is a major concern for Asian companies, especially in China. Other top company-specific concerns include maintaining profit margins and maintaining employee morale.

Asian CFOs expect capital spending and earnings to increase by more than 10 percent, with domestic employment rising 4 to 6 percent. Inventories will grow at nearly half of Asian firms because of new product lines and increased demand overall.

Thirty-six percent of Chinese firms are in acquisition mode. But Chinese companies say that on average, borrowing conditions have worsened in the past six months.

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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>>.

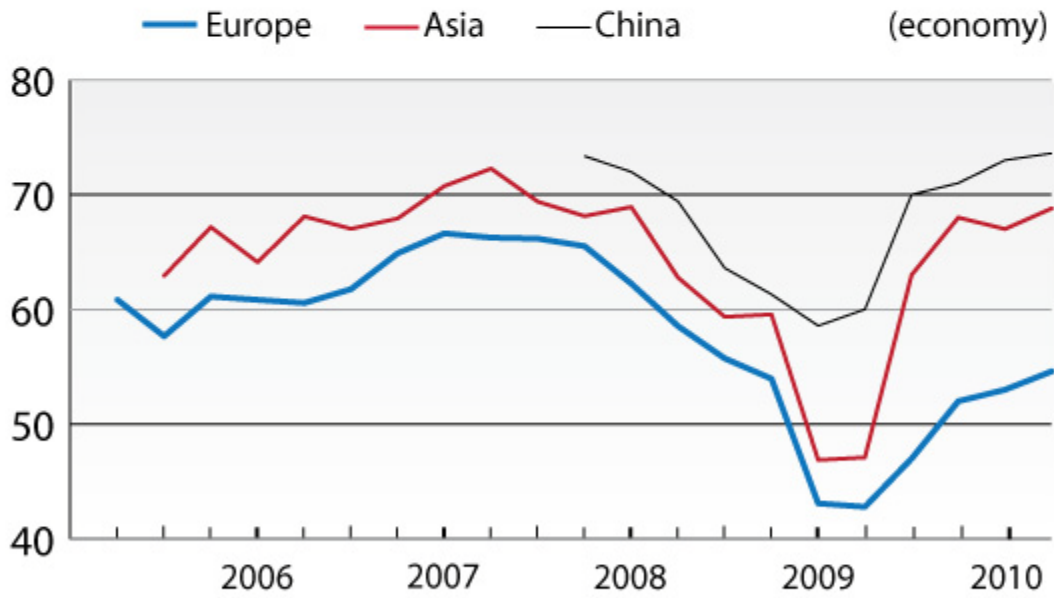
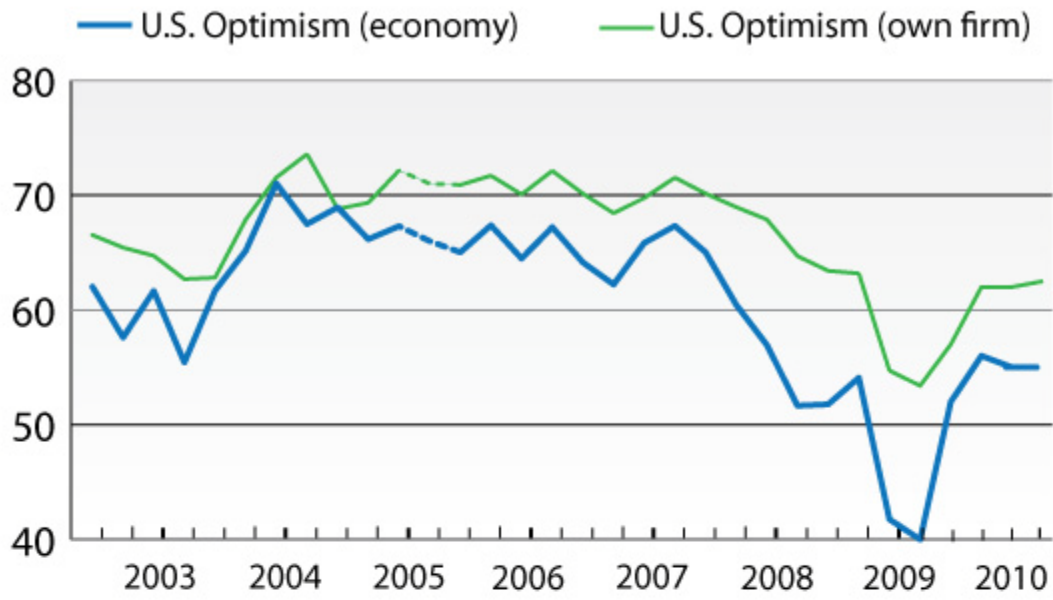
About the survey: This is the 56<sup>th</sup> consecutive quarter the Duke University/CFO Magazine Global Business Outlook survey has been conducted. The survey concluded Feb. 26, 2010, and generated responses from 1,389 CFOs, including 620 from the U.S., 163 from Europe, 325 from Asia (not including China), and 281 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 Survey polls 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 one percentage point (e.g., capital spending is expected to increase by 8.9 percent with a 95 percent confidence range of 8.5 percent to 9.2 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 ten \$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.

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