

Latin American CFO Survey: Strong Outlook for 2013

DUKE UNIVERSITY NEWS and FGV News
Duke University Office of News & Communications
<http://www.dukenews.duke.edu>

FOR IMMEDIATE RELEASE: Wednesday, September 18, 2013

CONTACTS: Luana Magalhães (FGV) at +55 11 3284 6147/ 3262 4426 or
luana.magalhaes@insightnet.com.br

and

Erin Medlyn (Duke University's Fuqua School of Business) erin.medlyn@duke.edu

CFO SURVEY: LATIN AMERICAN OPTIMISM FALLS BUT REVENUE AND SPENDING REMAIN STRONG

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

DURHAM, N.C. – Optimism among chief financial officers has fallen in Latin America for two consecutive quarters. This quarter, 60% of the CFOs are less optimistic while only 14% are more optimistic. Nonetheless, CFOs in Latin America are still among the most optimistic in the world. The primary concerns are weakening consumer demand, federal government policies and currency risk. Latin American CFOs are also worried about the ability to maintain robust profit margins, attract qualified employees and the ability to forecast results. According to the findings, revenue, capital expenditures, and wages should all experience growth. Nearly two-thirds of Latin American companies have obtained long-term credit in the past three years, primarily bank loans with an average maturity of about five years. Nearly half of the firms have borrowed US dollar denominated debt.

These are some of the findings of the most recent Duke University/Fundação Getulio Vargas/CFO Magazine Latin America Business Outlook survey. The quarterly survey, which concluded September 6, asked 1,212 CFOs around the world, including 248 from Latin America, about their firm's expectations and the economy. (See end of release for survey methodology.) The Latin American edition is a part of the Global Business Outlook Survey which has been conducted for 70 consecutive quarters. It spans Latin America, the U.S., Asia, Europe and Africa, making it the world's longest running and most comprehensive research on senior finance executives. Presented results are for Latin American firms unless otherwise noted.

SUMMARY OF FINDINGS

-- Sixty percent of Latin American CFOs became more pessimistic about their country's economy this quarter, compared to only 14 percent that became more optimistic. Even with this reduced optimism, Latin American CFOs remain the most optimistic in the world.

-- Latin American companies expect to increase their number of fulltime employees by 6.6 percent over the next 12 months. Many firms in Latin America say they are having difficulty finding employees with the right skill sets. Wages are expected to rise 7 percent.

-- Companies say their product prices will rise on average 3.1 percent due to inflation, more than what they expected last quarter when they expected an increase of 2.5 percent.

-- Sixty four percent of Latin American companies have obtained long-term credit in the past three years, primarily bank loans with an average maturity of 5.4 years. Nearly half of the firms have borrowed US dollar denominated debt.

-- Fifty three percent of the CFOs expect interest rates to increase

FALLING OPTIMISM

Optimism has fallen for two consecutive quarters. Sixty percent of Latin American CFOs say that they have become less optimistic about the economic prospects of their home countries, relative to their views last quarter. This drop is highly influenced by results in Brazil where 71% became less optimistic.

"This waning optimism indicates weaker economic prospects for firms in Latin America and may reflect the uncertainty in the global markets in which they operate," said Klenio Barbosa, an economics professor at Fundação Getúlio Vargas (FGV) in Brazil and co-director of the Latin American Business Outlook survey. "Interestingly, CFO optimism about their own firms has remained high, noted Barbosa.

Compared to CFOs around the world, Latin American CFOs are still the most optimistic. Latin CFOs rate their optimism at 61 on a scale of 0 to 100, greater than the 58 rating in the United States; 56 in Europe; 53 in Africa and 54 in Asia. In Latin America, Peru, Chile and Mexico are the most optimistic, while Argentina and Venezuela are the most pessimistic.

"On the other hand, an increase in optimism this quarter in the US and Europe gives hope to a global economic recovery. This creates opportunities for emerging markets," said Barbosa.

HIRING REMAIN STRONG; SHORTAGE OF SKILLED WORKERS

Hiring should remain strong with the number of full-time employees increasing by 6.6 percent in the next 12 months. Wages should rise 7% percent. However, a large percentage of Latin American firms (45 percent) have experienced difficulty in filling open job positions, most likely due to a "skills gap". We also observe a tendency increase temporary employment at 6.6 percent in the next 12 months.

"There continues to be somewhat of a mismatch between employee skills and company needs," said Gledson de Carvalho, a finance professor at FGV and co-director of the Latin American Business Outlook survey. "Fortunately, Latin American firms show that they are still willing to increase full-time employees."

TOP CONCERNS

The main concerns among CFOS are consumer demand, federal government policies and currency risk.

“When the main economic players such as USA and Europe change their economic policy, companies in other regions become worried about fundamentals and also worried that their governments will adjust their policies,” said John Graham, a Duke University [Fuqua School of Business](#) finance professor and director of the survey.

INCREASE IN INTEREST RATE

In most countries, the interest rate is expected to rise. Overall 53% of the CFOs expect interest rates to increase: in Brazil, 68%; in Peru, 45%; in Chile, 56%; and in Mexico 17%.

LONG-TERM CREDIT

Sixty four percent of Latin American companies have obtained long-term credit in the past three years (Brazil: 79%; Peru: 56%; Chile: 56%; Mexico 50%). The credit is primarily bank loans with an average maturity of 5.4 years. Nearly half of the firms have borrowed US dollar denominated debt. This is much higher than in the US where 52% of companies have obtained long term credit. The percentage drops further in Europe at 47% and Asia at 45%.

“It seems that in Latin America, banks have not been severely affected by the financial crises and preserved their ability to fund investments. This may be one of the reasons for the good economic performance observed in the region,” commented de Carvalho.

Please visit www.cfosurvey.org for more results specific to the U.S., Asia, Europe, and Africa.

For additional comment, contact

- Luana Magalhães (FGV) +55 11 3284 6147/ 3262 4426 / luana.magalhaes@insightnet.com.br
- Gledson de Carvalho (FGV): +55 11 3799 7767 or gledson.carvalho@fgv.br
- Klenio Barbosa (FGV): +55 11 3799 3565 or klenio.barbosa@fgv.br
- Duke University's John Graham: 011 919 660-7857 or john.graham@duke.edu
- CFO Magazine's David Owens davidowens@cfo.com

Detailed results, including tabular summaries of the numbers in this release and results from previous surveys, are available at www.cfosurvey.org. You can watch Professor John Graham talk about the results in this video - <http://bit.ly/14zLaWh>

About the survey: The Latin American Business Outlook is a quarterly survey of financial executives that is part of the Global Business Outlook survey. This is the 70th consecutive quarter the Duke University/CFO Global Business Outlook survey has been conducted. The survey concluded Sep 6, and generated responses from 1,212 CFOs, including 530 from the

U.S., 205 from Asia, 175 from Europe, 248 from Latin America, and 54 from Africa. The survey of European CFOs was conducted jointly with TiasNimbas in the Netherlands. The survey of Latin America was conducted jointly with Fundação Getúlio Vargas (FGV) in Brazil. The Japanese survey was conducted jointly with Takashi Yamasaki at Kobe University and Kotaro Inoue at Tokyo Institute of Technology. This is the second quarter for the African survey, which was conducted jointly with SAICA in South Africa.

A wide range of companies (public and private, small and large, many industries, etc.) are polled, with the distribution of responding firm characteristics presented in online tables. 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. 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 noted, all other numbers are for all companies, including private companies.

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.

Fundação Getúlio Vargas (FGV) was founded in 1944. FGV is an educational center of quality and excellence that dedicates its forces to the intellectual development in Brazil. Its mission is to push the boundaries of knowledge in social sciences and related fields through the production and dissemination of ideas, data and information, as well as their preservation and systematic organization; to contribute to the country's social and economic development, improving the nation's ethical standards, promoting a responsible and shared government, and inserting the country into the international stage. For more information, visit www.fgv.br.

CFO Publishing LLC, a portfolio company of Seguin Partners, is a business-to-business media brand focused on the information needs of senior finance executives. The business consists of *CFO* magazine, CFO.com, CFO Research Services, CFO Metrix and CFO Conferences. CFO has long-standing relationships with more than a half million financial executives.