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SURVEY: CFOs CONCERNED ABOUT U.S. ECONOMIC GROWTH, HEALTH CARE COSTS, TERRORISM

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DURHAM, N.C. -- CFOs of U.S. corporations are markedly less optimistic about the U.S. economy than they were three months ago, and are concerned about consumer spending, health care costs and domestic terrorism.

Financial executives are not, however, overly concerned about the upcoming presidential and congressional elections, and few companies have taken action in response to rising fuel costs.

These are the findings of the latest Duke University CFO Outlook Survey, which asks chief financial officers from both public and private companies and from a broad range of industries and revenue levels about their economic projections. The survey, completed Sept. 13, has been conducted for 34 consecutive quarters by Duke's Fuqua School of Business, and 201 executives responded to the September survey.

The survey asked executives to choose the top three risks, from a list of 13, that could affect their companies in the coming year. Nearly 60 percent of the CFOs listed the potential for weak U.S. economic growth as their number one risk. Consumer spending is another area of concern, with 38 percent of companies citing this among their top three concerns.

"Financial executives are concerned that the U.S. economic engine might become derailed," said John Graham, professor of finance at Duke and director of the survey. "This continues a trend first identified in our June survey, and in fact things have deteriorated somewhat since last quarter. While slightly more than half of executives tell us that they have growing optimism about the economy this quarter, this is down significantly from the 72 percent who had increasing optimism last quarter. This trend runs counter to Alan Greenspan's recent statement that the economy is regaining traction."

CFOs predict only 2.8 percent real GDP growth over the next 12 months, which is down from the June survey. "This is sharply lower than the consensus projection -- almost one percent below the street forecasts and the latest Federal Reserve prediction," said Campbell Harvey, professor of finance and founding director of the survey. "Maybe Main Street knows something that Wall Street and the Fed have overlooked."

CFOs expect health care costs to rise by an average of 9 percent in the next 12 months. This rapid rate of increase earned health care costs the number three ranking of risks faced by U.S. corporations, with one-third of corporations citing health costs as one of their top concerns.

Nearly 30 percent of financial executives cite domestic terrorism as one of the top risks facing their firm in the coming year.

In a series of follow-up questions, the survey probed to determine which types of terrorism would most affect corporations, and how companies would change hiring and capital spending if domestic terrorism were to occur. The CFOs ranked the effects of seven different types of terrorist targets: a symbolic target, transportation infrastucture, energy infrastructure, corporate infrastructure, a heartland target, an assassination or the use of weapons of mass destruction (WMD).

“People talk a lot about the implications of domestic terrorism. For the first time, we have some measurements,” Harvey noted. “The CFOs are telling us that corporate hiring and capital spending are far more sensitive to an attack on either the transportation or energy infrastructure than to an assassination or symbolic target. Of course, the WMD scenario is the most devastating both humanly and economically.”

Any reductions in capital spending would come on top of already weak corporate spending plans. In a separate question about general capital spending plans, U.S. corporations are expected to increase spending only 4.7 percent.

Only five percent of CFOs expressed any concern about the control of the Senate affecting their firm in important ways. A similarly small 12 percent said that the presidential election was a major concern of their company at this time.

Only one-in-four companies list the high price of oil as a major concern during the next 12 months. Furthermore, only about 14 percent of companies say they have implemented specific strategies to reduce their level of fuel consumption, such as switching to fuel-efficient vehicles or upgrading inefficient production facilities. Another six percent have taken exclusively financial actions, such as hedging against fuel-price increases or signing fixed-price fuel contracts.

“This is consistent with the information from our June survey that companies weren’t terribly worried about oil prices,” Graham said. The June survey found an oil price of $40 per barrel would result in slower earnings growth at only half of companies, and investment spending and hiring plans would be dampened at fewer than one-in-five companies.

In spite of all these risks and reduced optimism about the U.S. economy, executives do not believe the sky has fallen. CFOs expect earnings to grow 13 percent in the next 12 months.

Offshore employment is expected to increase at 40 percent of all firms, with the average number of outsourced employees increasing by 6.4 percent.

Three-in-four companies expect to increase their technology spending in the next 12 months, with the increase averaging 5.8 percent across all firms. A similar 70 percent of companies plan to increase advertising, by an average of 4.8 percent.

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Among the industries represented in the survey are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, and banking/finance/insurance. Revenue-weighted mean growth rates are provided for earnings, revenues, capital spending, technology spending, inventory, merger and acquisition activity, and prices of products. Employee-weighted mean growth rates are used for health care costs, productivity, number of employees and outsourced employment.

Detailed results of this survey, as well as other outlook surveys, are available at http://www.cfosurvey.org.

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