

Global CFO Survey: 2009 Looks Dismal, but Longer Term Optimism Rebounds

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CFO SURVEY: RECESSION TO DRAG ON FOR REST OF 2009, CREDIT CONDITIONS  
DETERIORATE FOR MANY FIRMS, CAPITAL SPENDING AND EMPLOYMENT TO BE SLASHED

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

DURHAM, N.C. -- The worldwide recession will continue for the remainder of 2009, with substantial cuts planned in employment and capital spending, according to chief financial officers in the U.S., Asia and Europe. Many companies face severe credit constraints.

Yet, in spite of these near-term difficulties, CFOs in the United States and Asia are growing more optimistic about the longer-term economic outlook; European CFOs are not.

These are some of the findings of the most recent Duke University/CFO Magazine Global Business Outlook Survey. The survey, which concluded May 29, asked 1,309 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 53 consecutive quarters.

SUMMARY OF FINDINGS

-- U.S. CFOs expect recession to last through 2009.

-- Fundamentals remain weak. Employment is expected to fall in both the U.S. and Europe (by approximately 5.5 percent) and the U.S. unemployment rate could reach into double-digits. In Asia, employment is expected to drop 1.4 percent over the next year.

-- Capital spending will decline by more than 10 percent in the U.S. and Europe and by 3 percent in Asia.

-- CFO optimism is rising from its recent all-time lows, with 54 percent of US and 63 percent of Asian CFOs more optimistic than they were last quarter. Only 30 percent of European CFOs are more optimistic and 31 percent are less optimistic. (See graph at bottom of release.)

-- Liquidity at lower-rated firms continues to worsen as they struggle to find credit. When they are able to secure credit, the cost is high. Credit market conditions have stabilized at companies with strong credit ratings.

#### HOPING FOR THE BEST, PLANNING FOR THE WORST

While the survey results indicate increasing optimism, the overall level of optimism is still low by historical standards.

"Our survey carries an important message: don't put too much weight on the 'soft' data like consumer confidence. Recovery requires sustained confidence, and such confidence is forged by stronger economic fundamentals," said Campbell Harvey, founding director of the survey and international business professor at Duke's Fuqua School of Business. "The economic fundamentals – employment, capital spending, the cost of credit – are still fundamentally troubling."

One example of underlying weakness is the surveyed companies' employment plans. Employment in the U.S. is projected to decrease by about 5.5 percent over the next 12 months, which could drive the overall unemployment rate into the 11-12 percent range.

"Presumably, government programs will offset some of these losses, but even the most optimistic government forecasts would reduce the losses by only two million. We're facing the possibility of another four million lost jobs," said Harvey.

#### 2009 TO REMAIN SLUGGISH DESPITE REBOUND IN U.S. AND ASIAN OPTIMISM

The majority of U.S. and Asian CFOs have grown more optimistic about their respective national economies during the last quarter. On a scale of 0 to 100, U.S. CFOs rate the economic outlook at 52 (up from an all-time low of 40 last quarter), while Asian finance chiefs (not counting China) rate the economy at 63. Chinese CFOs gave the economy a 70, and Europeans only 47.

"The rest of 2009 will remain challenging, but 2010 looks better for the U.S. and Asia," said Kate O'Sullivan, senior writer at CFO Magazine. "The weak European outlook could dampen the recovery in the rest of the world. To put it in context, the U.S. rating of 52 is still well below the long-term average of 61, but it is heading in the right direction. Given the strong record of the CFO optimism index as a leading indicator, we can expect the U.S. economy to begin to recover by early 2010. But the CFO outlook for the rest of 2009 is fairly dismal."

CFOs expect earnings to fall at public U.S. companies by 4 percent over the next 12 months, down from expected earnings growth of 3 percent a year ago. Capital spending is expected to decline by more than 10 percent in Europe and the U.S. and by about 3 percent in Asia. Tech spending and research and development will fare somewhat better, declining slightly in the U.S. and Europe, and increasing slightly in Asia. Marketing and advertising spending is expected to drop by more than 6 percent in the West.

#### CREDIT MARKET CONDITIONS WORSEN FOR MANY COMPANIES

About six in 10 U.S. companies report they are credit constrained, meaning they have had difficulty locating credit, and/or the cost of available credit is much higher than before the

crisis. Among these constrained firms, 42 percent say credit market conditions have deteriorated during 2009, while only 23 percent say conditions have improved.

"There is a dramatic split between haves and have-nots in the credit market," said John Graham, a finance professor at The Fuqua School of Business and the director of the survey. "Companies that have remained profitable and retained high credit ratings are generally able to obtain new credit. In contrast, the companies that really need credit, because they are experiencing losses or have seen their cash reserves shrink, find worsening credit conditions. For these financially constrained companies, bank lines of credit have become more expensive to secure. These same firms are drawing more heavily on the credit lines they can obtain, rather than using them primarily for short-term needs as they would in normal conditions."

"The big concern is we might hear the other shoe dropping, with the liquidity crisis that is strangling these companies creating substantial risk for the world economy."

The credit market bifurcation is evident in many ways. Constrained firms have seen the cash they hold on their balance sheets decline from 16 percent at the start of 2008 to 13 percent of total assets now, while unconstrained firms have seen their cash increase from 16 percent to 19 percent. Constrained firms have increased the amount drawn on their credit lines to 41 percent of maximum, while unconstrained companies have drawn only 24 percent of the maximum. For constrained firms, the interest rate premiums and fees they face are double those for unconstrained firms, and the number of months that banks are willing to commit to lending to them has declined. Two-thirds of constrained firms are required to provide collateral to secure a credit line.

Sixty percent of constrained companies report they have tried to negotiate more favorable terms with their lenders, but only one-third of these companies have been successful. One bright spot for these constrained companies is that about half have negotiated more favorable terms with suppliers. This does, of course, put strain on those suppliers.

#### TOP U.S. CONCERNS

Concerns about weak consumer demand and credit markets remain the top two external concerns for U.S. CFOs. They are also concerned about the policies of the federal government.

The top internal concerns are the inability to plan due to heightened economic uncertainty, working capital management and liquidity, and maintaining employee morale.

#### ADDITIONAL EUROPEAN RESULTS

European CFOs say they do not expect economic recovery to begin in Europe for 12 months (compared to U.S. CFOs' forecast of 10 months for the U.S.).

Forty-one percent of European CFOs say credit market conditions have worsened in 2009, compared to only 11 percent who say they have improved. Only one in four European firms has successfully renegotiated terms with lenders.

Nearly 60 percent of European companies have negotiated more favorable terms with suppliers, with lower prices or longer payment terms being the most common forms of easing.

Among European suppliers granting more favorable terms, nearly three-fourths say agreeing to more favorable terms is leading to financial stress at their firm.

#### ADDITIONAL ASIAN RESULTS

Weak consumer demand is by far the biggest external concern among Asian CFOs, followed by credit market and currency risks. Liquidity and working capital management is a top internal concern in Asia. In China, the top internal concern is attracting and retaining skilled employees.

More than half of Asian CFOs report an increase in new orders this quarter, with the biggest increases coming from Southeast Asia, India and China. More than half of Chinese companies report an increase in orders from other Chinese companies.

Among Asian firms that are primarily suppliers to other firms, about two-thirds have granted more favorable terms to their customers. These concessions have come mainly in the form of lower prices (more than four in 10 cases) and longer payment schedules (about one in four cases). More than 80 percent of Asian suppliers report granting more favorable terms to their customers is putting financial strain on their own companies.

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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>>.

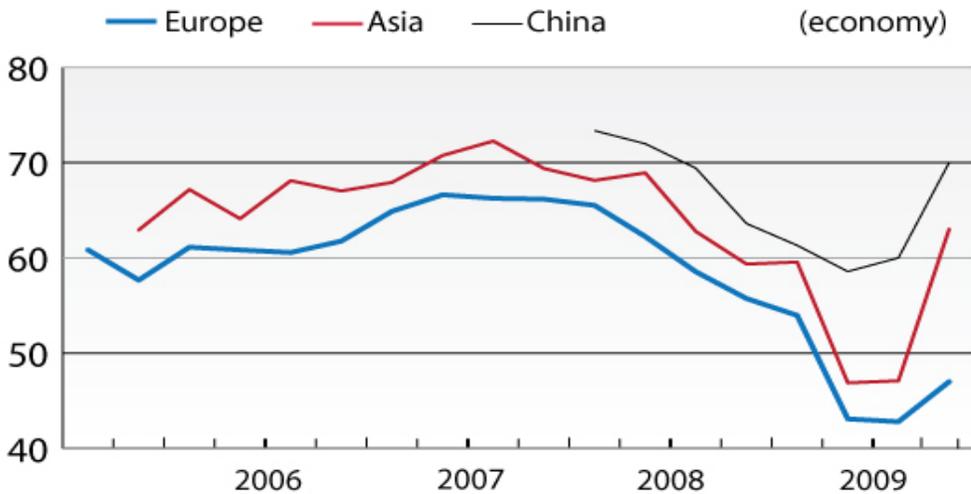
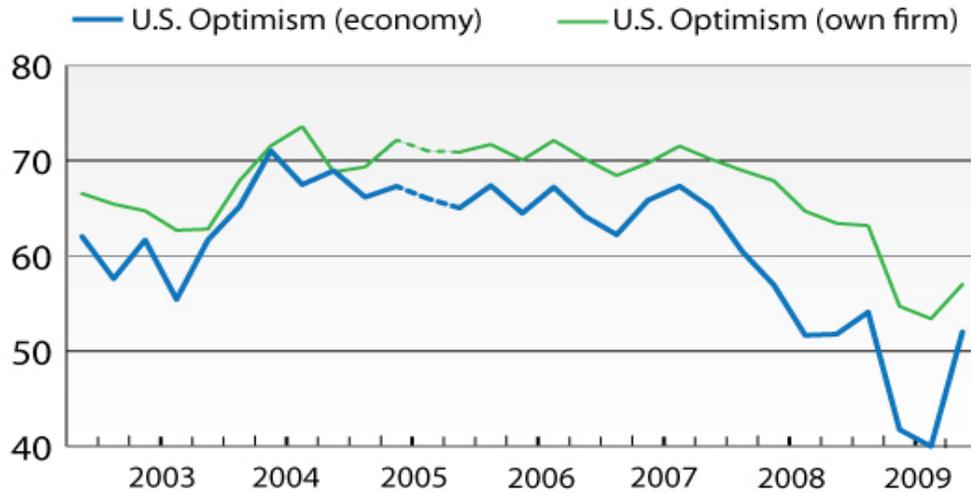
About the survey: This is the 53<sup>rd</sup> consecutive quarter that the Duke University/CFO Magazine Global Business Outlook survey has been conducted. The survey concluded May 29, 2009 and generated responses from 1,309 CFOs, including 540 from the U.S., 227 from Europe, 249 from Asia (not including China), and 293 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. Among the industries represented in the survey are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, service/consulting and banking/finance/insurance. 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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