Global CFO Survey: Corporate Outlook Brightens, Spending and Hiring to Rise

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CFO SURVEY: OUTLOOK IMPROVES, SPENDING AND EMPLOYMENT TREND UPWARD

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

DURHAM, N.C. -- Chief financial officers in the U.S. are becoming more optimistic about the economic outlook for 2011, raising expectations for continued growth in capital spending and earnings and for improved job growth. Wages next year are expected to rise 2.5 percent in the U.S.

But concerns about the consumer sector and continued price pressure still limit the extent of economic recovery that CFOs expect to see.

These are some of the findings of the most recent Duke University/CFO Magazine Global Business Outlook Survey. The survey, which concluded Dec. 10, asked 848 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 59 consecutive quarters, making it one of the world's largest and longest-running surveys of senior finance executives. Presented results are for U.S. firms unless otherwise noted.

SUMMARY OF FINDINGS

-- Half of CFOs are more optimistic about the U.S. economy this quarter, compared to 14 percent who are less optimistic, representing a marked improvement from the previous quarter.

-- CFOs expect to boost company earnings (20 percent increase expected in 2011) and increase capital spending (9 percent), tech spending (5 percent), hiring (2 percent), and dividends and share buybacks (3 percent)

-- Overall, 36 percent of companies find borrowing conditions have improved compared to Fall 2009. The smallest firms (100 or fewer employees) say credit is still tight.

-- Companies will continue to accumulate cash in 2011 (6 percent growth), although some plan to use cash for capital spending.

-- The economic recovery is still hindered by concerns about consumer demand, pressure on profit margins, and the difficulty in planning during uncertain economic times.

-- More than half of U.S. firms say they would be hurt by protectionist economic policies.

OPTIMISM, EARNINGS, CAPITAL SPENDING, CASH

Half of U.S. CFOs say their optimism has increased this quarter.

“The current level of optimism has increased notably from last quarter,” said Kate O’Sullivan, senior editor at CFO Magazine. “U.S. optimism still trails Asia, but this quarter surpasses Europe. Finance chiefs are acting on this improved outlook by boosting their budgets.”

Earnings are expected to rise nearly 20 percent in the U.S., greater than the 14 percent jump expected in Europe and 10 percent in Asia.

U.S. finance chiefs expect to step up their capital spending by 9 percent in 2011, research and development by 4 percent, and advertising by 2 percent. Half of U.S. companies say they will begin to spend accumulated cash, with two-thirds of these firms using the cash to increase capital spending and one-third saying it will go toward acquisitions.

EMPLOYMENT, WAGES

U.S. firms expect to increase full-time workforce by 2 percent in 2011, the largest planned hiring increase since early 2006. Hiring will be particularly strong in the tech and service/consulting industries. Employment is expected to rise by about 5 percent in Asia, but only 0.2 percent in Europe.

“The U.S. employment picture is improving,” said John Graham, professor of finance at Duke’s Fuqua School of Business and director of the survey. “At a normal rate of labor force growth, employment expansion of 2 percent should reduce unemployment below 9 percent by the end of 2011. At the same time, the U.S. is still sending jobs overseas, with an expected 5 percent increase in outsourced jobs in 2011.”

Wages are expected to rise 2.5 percent in the U.S., 2.2 percent in Europe, and about 7 percent in Asia.

TOP CONCERNS

Top concerns for U.S. CFOs include weak consumer demand, the federal government’s agenda, and intense price pressure. The cost of health care and the difficulty of attracting skilled employees are among the top company-specific concerns.

The inability to plan for the future due to extreme uncertainty about the pace of economic improvement also concerns U.S. executives. Finance chiefs said the midterm elections did not significantly resolve their uncertainty about government policies and the election results won’t make it easier to plan for the future.

CREDIT CONDITIONS

U.S. credit market conditions have improved somewhat this quarter. Thirty-six percent of CFOs say borrowing is easier now compared to one year ago, compared to 21 percent reporting tighter credit. Among the smallest firms (fewer than 100 employees), credit remains tight. One-third of these smallest companies say credit is tighter now relative to conditions one year ago, compared to one-fifth who say credit conditions have improved.

“In a typical recovery, most job growth comes from small firms,” said Campbell R. Harvey, a professor of finance at Fuqua and founding director of the survey. “Therefore, the difficulty in borrowing by small companies will continue to shackle economic growth and job creation going forward.”

Companies around the world say low interest rates have encouraged them to borrow slightly more. The borrowing mix has changed notably, with companies shifting toward long-term, fixed-rate borrowing to lock in low long-term rates. One exception is China, where half of all firms say borrowing has become more difficult, as the Chinese central bank attempts to slow economic growth and dampen potential inflationary pressures.

HOARDING CASH

U.S. non-financial firms are sitting on $1.93 trillion in cash. The ratio of cash to assets is the highest it has been since 1959, and many respondents are loath to part with much, if any, of their cash storages.

“Fifty percent of surveyed CFOs have no intention of putting their excess cash to work,” Harvey said.

CFOs say they plan to continue to hold cash because: 1) continued credit market uncertainty; 2) persistent economic uncertainty in general; and 3) few investment opportunities. Of those companies planning to draw down their cash reserves, two-thirds would focus on capital investment while only 15 percent said they would use the cash to increase hiring.

EXPORTS

Exports are expected to increase from about 19 percent of U.S. sales currently to about 28 percent. The biggest growth will come from companies that currently export between 20 and 39 percent of sales -- these firms plan to double the export share of sales over their planning horizons.

Fifty-four percent of U.S. companies say protectionist governmental policies would hurt their firms.

ADDITIONAL ASIAN RESULTS

Optimism in Asia (not including China) is strong, with 72 percent of CFOs being more optimistic and 10 percent more pessimistic. The outlook is more restrained in China, with optimists outnumbering pessimists 40 percent to 22 percent.

The top internal concern among Asian CFOs is difficulty in attracting and retaining qualified employees, with employee morale and difficulty in planning following close behind. Supply chain risk is the No. 4 concern among Chinese companies.

Full-time domestic employment is expected to increase by about 5 percent in Asia in 2011 and capital spending will rise by more than 10 percent. Seventy percent of Asian companies will begin to deploy accumulated cash in 2011, with 71 percent making capital expenditures and 32 percent spending on mergers and acquisitions.

Sixty-eight percent of Asian CFOs believe their country's currency will depreciate relative to the U.S. dollar (helping U.S. exports), with an average depreciation of 7 percent.

ADDITIONAL EUROPEAN RESULTS

European optimism trails the rest of the world, with 38 percent of CFOs being more optimistic and 27 percent more pessimistic.

The list of internal European concerns is topped by difficulty in attracting skilled employees, difficulty in planning due to economic uncertainty, employee morale, and corporate liquidity.

Full-time domestic employment will increase by only 0.2 percent, while outsourced employment will increase 6 percent.

Nearly two-thirds of European CFOs believe that Ireland poses a threat to the euro, although they also say Ireland is in a better financial position than Greece was last year.

European firms plan to generate about half of their sales outside of their own countries, with about 40 percent originating outside of Europe.

Thirty percent of European CFOs believe their primary currency will depreciate relative to the U.S. dollar, with an average decline of 9 percent.

For additional comment, contact CFO Magazine's Kate O'Sullivan at (617) 345-9700 (x3214) or kateosullivan@cfo.com, or Duke's John Graham at (919) 660-7857 or john.graham@duke.edu. For commentary about European results, contact 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 59th consecutive quarter the Duke University/CFO Magazine Global Business Outlook survey has been conducted. The survey concluded December 10, 2010, and generated responses from 848 CFOs, including 481 from the U.S., 136 from Europe, 131 from Asia (not including China), and 100 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 a little less than 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, which is a 0.7 percent confidence range). 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 noted, all other numbers are for all companies, including private companies.

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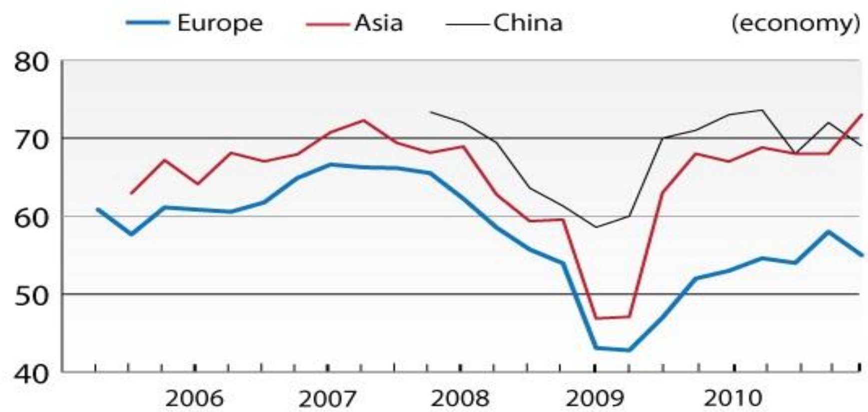
U.S. Optimism (economy)
U.S. Optimism (own firm)
80
70
60
50
40
2003
2004
2005
2006
2007
2008
2009
2010


Europe
Asia
China
(economy)
80
70
60
50
40
2006
2007
2008
2009
2010

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