Global CFO Survey: OPTIMISM BACK TO 2007 LEVELS, INFLATION CONCERNS

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CFO SURVEY: OUTLOOK ROSIER, SOME SECTORS HIRING, BUT INFLATION A WORRY

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. have a more optimistic outlook about the economy, with robust growth expected in earnings and capital spending. Overall employment is expected to grow slowly, though some job categories are in strong demand. However, an uptick in inflation would pose notable risks for many firms.

These are some of the findings of the most recent Duke University/CFO Magazine Global Business Outlook Survey. The quarterly survey, which concluded March 3, asked 854 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 60 consecutive quarters, making it one of the world's most comprehensive and longest-running surveys of senior finance executives. Presented results are for U.S. firms unless otherwise noted.

SUMMARY OF FINDINGS

-- CFO optimism has increased, rising to the highest level since early 2007.

-- Earnings growth (18 percent) and capital spending growth (12 percent) will be robust over the next year, according to CFOs.

-- Dividends will soar by 14 percent, the largest quarterly increase in the history of the survey.

-- Employment growth will be modest (1.2 percent) overall; however, some industries identify a need to hire skilled workers in engineering, product development, information technology, finance and accounting, and sales.

-- Inflation concerns have increased. CFOs who say an increase in inflation would affect their business estimate that inflation of 4 percent would cut earnings growth in half.

-- Overall, 39 percent of companies find borrowing conditions have improved compared to fall 2009. The smallest firms (revenue under $100 million) say credit is still tight.

OPTIMISM, EARNINGS, CAPITAL SPENDING, CASH

CFOs are at their most optimistic since the first quarter of 2007, with 56 percent of U.S. CFOs saying their optimism has increased this quarter. By comparison, 39 percent of European CFOs say they are more optimistic, while 65 percent of Asian CFOs are more optimistic.

"Increasing optimism is good news for the U.S. economy going forward," said John Graham, professor of finance at Duke's Fuqua School of Business and director of the survey. "Historically, we have found that increases in optimism lead to stronger GDP growth, spending and employment within a year."

Earnings are expected to increase 18 percent in the U.S., effectively doubling the 9 percent jump expected in Asia and the 10 percent increase anticipated in Europe.

U.S. finance chiefs expect to step up capital expenditures by a robust 12 percent in 2011. "We have not seen double-digit capital spending growth since 2004," Graham said.

In addition, spending on research and development is projected to grow by 4 percent, and advertising by 4 percent. Still, half of U.S. companies say they will continue to accumulate cash on the balance sheet.

EMPLOYMENT: WHO IS HIRING?

U.S. firms expect to increase their full-time workforces by just over 1 percent in 2011. Hiring will be strongest in the energy, transportation and retail/wholesale industries, while employment will decrease in construction and media. Employment is expected to rise by about 9 percent in Asia and decline by less than 1 percent in Europe.

"The U.S. employment picture is slowly improving," said Kate O'Sullivan, deputy editor at CFO Magazine. "The rate of improvement won't push unemployment much below 9 percent this year, but certain job categories are in high demand."

Among firms that are hiring, about one-third note a strong need to hire skilled labor and professionals this year: engineers, medical personnel, product developers, followed by IT, and finance and accounting staff. The industries with the greatest hiring needs for these jobs include manufacturing, mining and construction, and health care.

Salespeople are also in strong demand, with 27 percent of CFOs saying their firms need to expand their sales force this year. The strongest sales needs are in the retail/wholesale, tech and finance/banking/insurance industries. There is very little need for manual laborers, administrative support staff or human resources workers.

CFOs were also asked how long, if ever, it will be before their firms return to pre-recession employment levels: 37 percent of companies say they have already returned to pre-recession levels, while one in five firms says they will never return to previous employment levels. Another 43 percent say they will eventually return to pre-recession employment levels, but not until sales revenue increases by another 40 percent.

"This indicates it will take several years, at least, before most firms have returned to pre-recession staffing levels," O'Sullivan said. "Another concern is that small firms say borrowing conditions are still tight; nearly half say borrowing is more difficult now than it was at year-end 2009. Given that much employment growth comes from young, small firms, tight credit among these firms will continue to constrain employment."

INFLATION STRESS

U.S. companies expect prices of their products to increase by just over 2 percent during the next 12 months, indicating moderate price pressure in the near term. However, inflation has begun to worry CFOs. Fuel and commodity price inflation are among the top six corporate concerns. Exacerbating inflationary concerns, 76 percent of manufacturing firms expect that capacity utilization -- a measure of actual output versus potential output -- will increase during 2011 and only 4 percent expect a decrease. Overall, capacity utilization is expected to leap by 6 percentage points in 2011 to nearly 80 percent, up from last year's 73.5 percent and a level not seen since before the recession.

"Many of our surveyed firms have grave concerns about inflation," said Campbell Harvey, a professor of finance at Fuqua and founding director of the survey. "We asked these inflation-vulnerable firms what would happen to earnings growth if there were 'surprise' inflation of 4 percent in 2011 compared to the current rate of 1.5 percent. If inflation surges to a hypothetical 4 percent, CFOs report that earnings growth would be slashed by an astonishing 48 percent."

MERGERS AND ACQUISITIONS (M&A)

Thirty-six percent of U.S. companies say they will acquire another firm or part of another firm during the next year. M&A activity should be about the same in Asia, but even more robust in Europe, where 42 percent of firms plan to make acquisitions.

In the U.S., the most active industries for M&A will be tech, media, and service/consulting.

ADDITIONAL ASIAN RESULTS

Optimism in Asia (not including China) is strong, with 65 percent of CFOs more optimistic than they were last quarter and 10 percent more pessimistic. The outlook is restrained in China, with optimists barely outnumbering pessimists 34 percent to 32 percent.

The top internal concern among Asian CFOs is difficulty in attracting and retaining qualified employees, with liquidity management, employee morale and difficulty in planning following close behind.

Full-time domestic employment is expected to increase by about 9 percent in Asia in 2011 and capital spending will rise by more than 15 percent.

ADDITIONAL EUROPEAN RESULTS

European optimism trails the rest of the world, with 39 percent of CFOs being more optimistic than last quarter and 23 percent more pessimistic.

European concerns include intense pressure on profit margins, difficulty in planning due to economic uncertainty, difficulty in attracting skilled employees, employee morale, and corporate liquidity.

European CFOs are split on their assessment of credit conditions, with 30 percent saying borrowing is easier than it was in fall 2009 and 31 percent saying borrowing is more difficult.

Full-time domestic employment will decrease by 0.6 percent, while outsourced employment will increase 3 percent.

Two-thirds of European CFOs do not believe the European Financial Stability Facility is adequate to safeguard financial stability in Europe.

About three-fourths believe there is need for a Europe-wide bank oversight institution to oversee and regulate cross-border banks.

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 60th consecutive quarter the Duke University/CFO Magazine Global Business Outlook survey has been conducted. The survey concluded March 3, 2011, and generated responses from 854 CFOs, including 512 from the U.S., 126 from Europe, 132 from Asia (not including China), and 84 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 12.1 percent with a 95 percent confidence range of 11.8 percent to 12.5 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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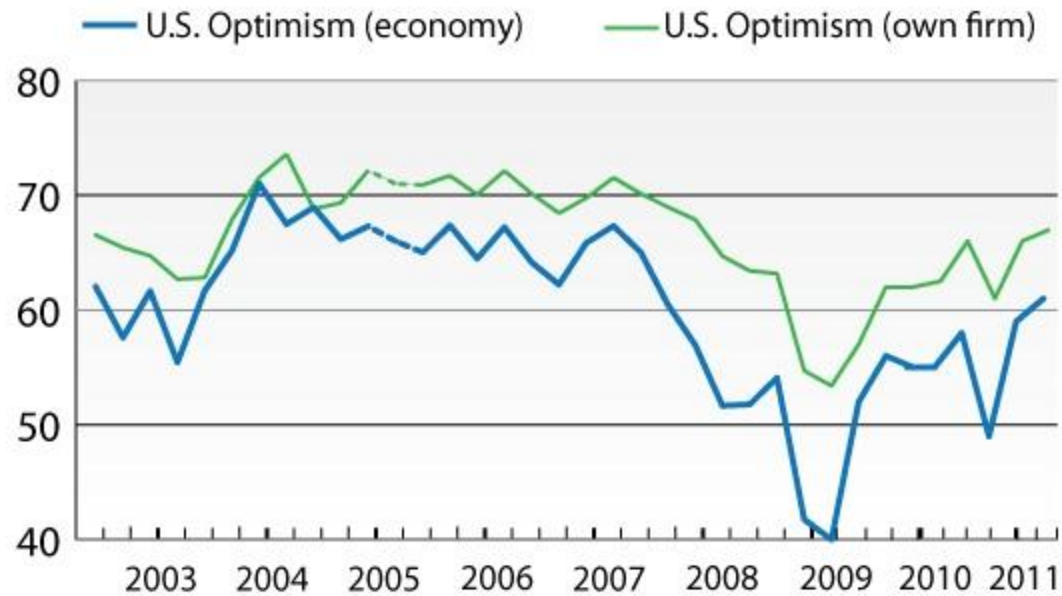
U.S. Optimism (economy)
U.S. Optimism (own firm)
80
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2003
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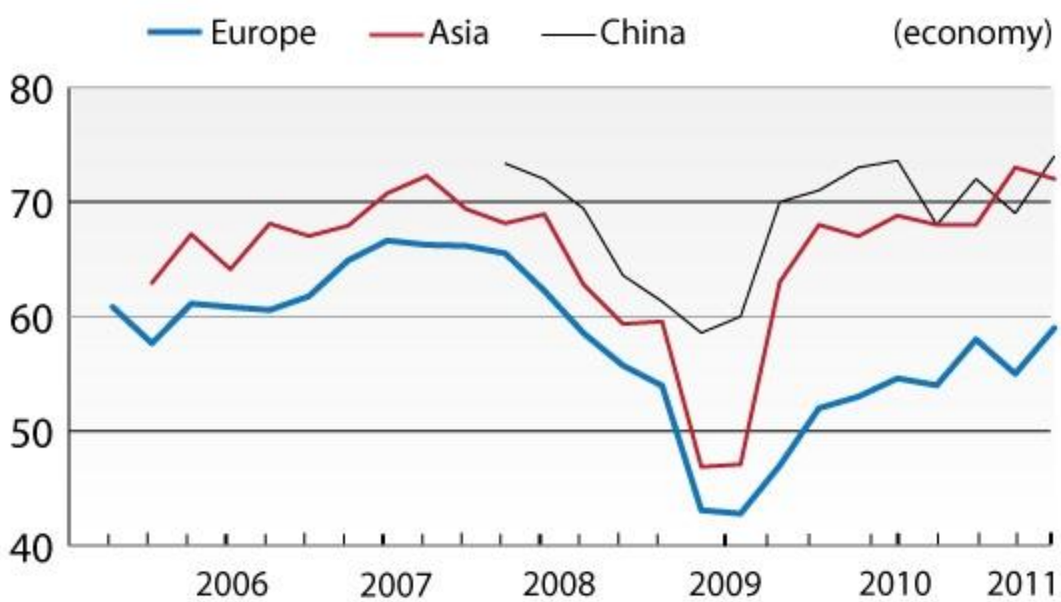
2009
2010
2011


Europe
Asia
China
(economy)
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