Global CFO Survey: Slow Job Growth, But Improved Benefits and Wages

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CFOs PREDICT MODERATE ECONOMIC GROWTH, SLOW JOB MARKET

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

DURHAM, N.C. – Optimism among chief financial officers in the U.S. has fallen, but spending plans indicate continued moderate growth over the next year. Hiring will be minimal – less than 1 percent over the next year – though many companies plan to reinstitute some employee benefits.

These are some of the findings of the most recent Duke University/CFO Magazine Global Business Outlook Survey. The quarterly survey, which concluded June 3, asked 806 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 61 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 about the economy fell to 57 on a 100-point scale, down from a 61 rating last quarter, but roughly even with a year ago. Own-firm optimism fell to 65 from last quarter's 67. The declining optimism may be due to concerns about the continued shaky economic outlook in the U.S., the ongoing sovereign debt crisis in Europe, the disaster in Japan and high oil prices, among other factors.

-- Projected growth in earnings (8 percent) and capital spending (9 percent) are both down from last quarter, but still reasonably strong.

EMPLOYMENT

U.S. companies expect domestic employment to increase by 0.7 percent over the next year. This rate of growth is down from last quarter and implies that, over the next year, the U.S. economy will average fewer than 100,000 new jobs created each month.

“CFOs are telling us we are stuck at 9 percent unemployment for the next year,” said Campbell Harvey, a professor of finance at Duke’s Fuqua School of Business and founding director of the survey. “One leg of the economy is shackled by extraordinarily high unemployment and the other by the housing market still in a free fall. Obviously, it is hard for the economy to move forward.”

Still, there is some good news on the employment front. Twenty-one percent of companies say they are actively hiring, with the strongest activity in the tech, retail/wholesale and energy sectors. Jobs in high demand include engineers, product development, sales force and finance/accounting.

Nearly 10 percent of firms say they would like to hire, but cannot find employees with the right skills, and 16 percent say they would like to hire more but are resource constrained. Only twelve percent of firms say they are overstaffed for current demand.

“Overall, there is pent-up demand to increase workforce, but firms continue to hold off due to a generally weak economic environment and an inability to find the skills they need,” said Kate O’Sullivan, deputy editor at CFO Magazine. “One encouraging sign is that the strong capital spending growth of recent quarters is expected to add to employment.”

CFOs were asked whether the recent rapid growth in capital spending was leading to machinery that might replace employees and therefore reduce labor force, or whether their capital spending would increase the need for employment. Thirty-eight percent of companies report capital spending will lead to increased employment, while 52 percent say it will have no effect. Only 9 percent say that capital spending will lead to reduced employment.

EMPLOYEE BENEFITS, WAGES, AND HOURS WORKED

Employment benefits were slashed during the recent recession, but CFOs now indicate many of these benefits will be reinstated in the coming year.

Among companies that had cut employee training and development, 46 percent say these programs have already been or will be reinstated to pre-recession levels within the next 12 months. Sixty-one percent of firms indicate weekly hours worked will rise to pre-recession levels. Wages are expected to rise by 3 percent over the next year.

“Though the expectations for new job creation are weak, those who are employed should see their benefits and wages improve over the next year,” said John Graham, professor of finance at Fuqua and director of the survey. “This should solidify the financial position of those currently employed, which will bring much-needed spending to the economy. But it will also magnify the gulf between the haves and have-nots.”

SPENDING AND EARNINGS

Capital spending plans have weakened, with a planned increase of 9 percent on average over the next 12 months. Although this is below last quarter’s planned growth of 12 percent, it is still higher than the long-run average of 5 percent. Similarly, spending on research and development, marketing and advertising are both expected to grow slightly, though at slower forecasted rates than last quarter. Earnings are expected to rise about 8 percent, down from last quarter, but still a moderately healthy rate of growth.

"The outlook has softened since last quarter," said O'Sullivan. "We are still in growth mode, albeit moderate growth."

About 59 percent of capital spending is targeted to replace existing equipment, such as machinery that is obsolete or worn out. The remaining 41 percent will be spent on new investments.

ADDITIONAL ASIAN RESULTS

Optimism in Asia (not including China) remains strong, with 57 percent of CFOs more optimistic than they were last quarter and 25 percent more pessimistic. China's level of optimism has fallen behind optimism in the rest of Asia for the first time in the history of the survey.

The top internal concern among Asian CFOs is difficulty in attracting and retaining qualified employees, followed by difficulty planning and employee morale. The top external concerns in Asia are intense pricing pressure and weak consumer demand. Chinese CFOs also worry about government policies.

Full-time domestic employment is expected to increase by about 6 percent in Asia in 2011 and wages will rise by nearly 10 percent. Capital spending will increase by 5 percent, a significant drop from last quarter.

Asian manufacturing firms expect capacity utilization to rise to more than 90 percent by year-end.

The Japanese nuclear crisis has slowed the ability of Asian firms in other countries to complete orders, particularly in Indonesia, Singapore and China.

ADDITIONAL EUROPEAN RESULTS

European CFOs are concerned about intense pressure on profit margins, difficulty in attracting and retaining skilled employees, difficulty in planning due to economic uncertainty and corporate liquidity.

About 20 percent of European firms say they are hiring, but nearly as many say they are overstaffed.

European CFOs expect earnings to increase by 6 percent in the next year and capital spending by 4 percent.

Eighty percent of European CFOs think Greece will default on its debt within one year unless additional financial aid is provided. Only one-third think current proposals to extend maturity and reduce interest rates are sufficient. If Greece defaults, 42 percent of European CFOs think it is likely that Spain will need a bailout to avoid default.

Nearly half of European CFOs believe a Eurozone country will experience an economic depression due to recently enacted severe austerity programs.

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 61st consecutive quarter the Duke University/CFO Magazine Global Business Outlook survey has been conducted. The survey concluded June 3, 2011, and generated responses from 806 CFOs, including 500 from the U.S., 118 from Europe, 120 from Asia (not including China), and 68 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 8.7 percent with a 95 percent confidence range of 8.3 percent to 9.1 percent, which is a 0.8 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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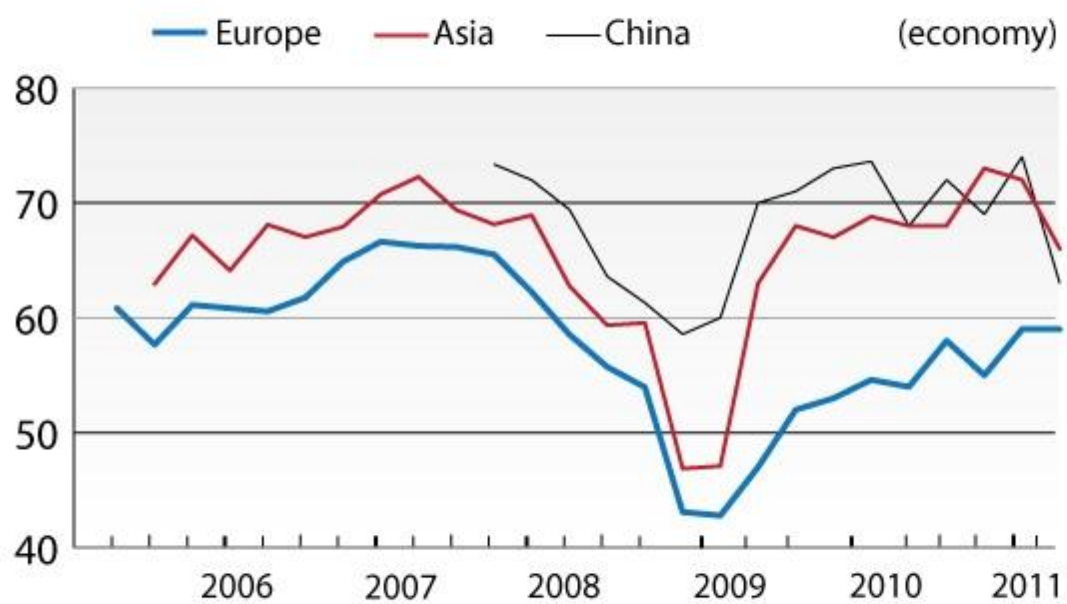
U.S. Optimism (economy)
U.S. Optimism (own firm)
80
70
60
50
40
2003
2004
2005
2006
2007
2008
2009
2010
2011



Europe
Asia
China
(economy)
80
70
60
50
40
2006
2007
2008
2009
2010
2011