Global CFO Survey: U.S. Optimism Falters, but Hiring Forecast Stays Positive

FOR IMMEDIATE RELEASE: Wednesday, June 6, 2012

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CFOs: U.S. JOB GROWTH SHOULD REMAIN STRONG DESPITE SLUMPING OPTIMISM

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

DURHAM, N.C. -- In contrast to last week’s Bureau of Labor Statistics report, which reported an increase in the unemployment rate in May, chief financial officers expect hiring to remain strong in the U.S. over the next year.

This finding is included in the most recent Duke University/CFO Magazine Global Business Outlook survey. The quarterly survey, which concluded May 30, asked more than 800 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 survey has been conducted for 65 consecutive quarters, and spans the U.S., Asia, Europe and Latin America, making it the world’s longest running and most comprehensive research on senior finance executives. Presented results are for U.S. firms unless otherwise noted.

SUMMARY OF FINDINGS

-- U.S. finance chiefs plan to expand workforce by 2.5 percent, on average over the next year. Nearly 30 percent of U.S. firms say their employees are “maxed out” -- working at full capacity -- and 60 percent are looking to hire.

-- Despite the expected strong job growth, CFO optimism in the U.S. dropped from 59 last quarter to 56 this quarter. Asian optimism, which has traditionally been higher than that in the U.S., fell to 58 from last quarter’s 65, marking the first time in the survey’s history that U.S. and Asian optimism are nearly the same. European optimism fell to 52 from last quarter’s 54.

-- U.S. earnings are expected to increase 11 percent, tech spending 8 percent, and capital spending 5 percent.
-- Business corruption is not viewed as a problem in the U.S., is a modest problem in Asia and is a significant problem in Latin America, reducing quality and raising prices.

-- Firms are building in significant contingencies before making corporate investments. As a result, the Fed’s interest rate policies have little effect on their investment plans.

-- Most firms continue to stockpile cash because of great economic uncertainty.

**STRONG EMPLOYMENT OUTLOOK**

The employment outlook continues to improve, with U.S. finance executives expecting to increase their number of domestic full-time employees by 2.5 percent. The Duke University/CFO Magazine Global Business Outlook survey is the first reading on employment after last week’s disappointing Non-Farms Payroll report from the Bureau of Labor Statistics.

“The Duke-CFO survey measures plans for the next 12 months, which is in contrast to the Bureau of Labor Statistics’ assessment of the employment situation, which measured a single month: May,” said Kate O’Sullivan, editorial director at CFO Magazine. “In contrast to the BLS number, CFOs indicate a level of hiring that would reduce the national unemployment rate to near 7 percent within a year, if all else remains constant.

“More than one out of four U.S. CFOs say their employees are maxed out, so the planned increase in payrolls is long overdue,” O’Sullivan said.

**OPTIMISM**

The U.S. CFO Optimism Index, in which CFOs rate their confidence in the economy on a scale of 0 to 100, decreased from 59 last quarter to 56 this quarter. Even with this drop, the level of U.S. optimism closed the gap on Asian optimism, which fell to 58 from last quarter’s 65. The optimism index in Europe dropped from 54 last quarter to 52; Latin American CFOs rated their optimism at 54.

“The drop in optimism is a bit worrisome for the U.S. because historically a drop in optimism foretells slower economic activity over the next year,” said John Graham, a professor of finance at Duke’s Fuqua School of Business and director of the survey. “On top of that, falling Asian, European and Latin American optimism confirms that the world economy is slowing. Combined with reduced plans for U.S. capital spending, overall domestic economic growth will likely continue to soften over the next year even as hiring ticks up slightly.”

**FED POLICY**

The Federal Reserve’s fiscal moves appear to have little impact on corporate investment. “CFOs are telling us that they are building in large contingencies before going ahead with investments,” said Campbell Harvey, a Fuqua finance professor and founding director of the survey. “The size of this buffer exceeds 4 percent per year.

“As a result, current policies like Operation Twist (a $400 billion policy designed to lower longer-term interest rates) have little or no effect. Only 3 percent of CFOs tell us that a long-term interest rate increase of 1 percent would cause a delay or cancellation of an investment project.
“The economy will not get back to normal growth without a robust increase in corporate investment,” Harvey added. “We know U.S. corporations are sitting on huge cash reserves. CFOs are telling us that manipulations of interest rates by the Fed via quantitative easing are not going to have the desired impact.”

BUSINESS CORRUPTION

U.S. executives say business corruption (fraud or bribery, for example) does not have much impact on their activities, with fewer than one-in-10 indicating corruption is significant. In contrast, 35 percent of Asian and three-fourths of Latin American CFOs say corruption is a significant issue. Approximately half of Latin American survey respondents say corruption leads to higher prices, lower quality, slower growth, reduced competition and reduced tax revenues for the government.

INNOVATION

Thirty-nine percent of U.S. companies say they dedicate resources specifically toward pursuing major innovations. Among these firms, on average 3 percent of total budget goes toward transformational innovation, and 6 percent towards moderate risk / moderate reward innovation.

As in the U.S., 39 percent of Asian companies devote a portion of their budget to pursuing major innovations. However, Asian firms plan to spend more (5 percent) of their total budget on transformational innovation.

SPENDING AND CASH HOLDINGS

U.S. firms plan to increase capital spending by nearly 5 percent over the next 12 months, down from more than 7 percent in the last two quarterly surveys. Spending on technology should grow by 8 percent and research/development and marketing/advertising outlays are expected to grow about 3 percent.

“Rather than spend, slightly more than half of companies say they will instead continue to hoard cash,” said Graham. “While building up and holding onto cash balances may be prudent for any one company, it limits potential growth in the overall economy.”

Businesses are holding on to cash because of concerns about credit markets potentially tightening, extreme economic uncertainty and a lack of attractive investment opportunities.

ADDITIONAL EUROPEAN RESULTS

Hiring, research and development, and advertising spending will be relatively flat in Europe over the next year. Capital spending and earnings are each expected to fall by 1 to 2 percent.

European firms will continue to hold on to their cash, citing liquidity concerns, extreme economic uncertainty and a lack of attractive investment opportunities. Those that will spend cash are as likely to use it to pay down debt as to make business investments.

Corporate debt ratios have risen in Europe. The typical European firm would like to reduce its amount of debt by issuing equity and paying off bank debt.
Nearly half of European CFOs believe their workforce and physical assets are underutilized.

ADDITIONAL ASIAN RESULTS

Asian CFOs who are growing more pessimistic outnumber those growing more optimistic by nearly a three-to-one margin. Asian optimism fell to levels last seen during the recent recession.

Asian firms are concerned about intense price pressure, weakening demand, global financial instability and uncertainty, liquidity, governmental policies and low employee productivity and morale.

Wages are expected to rise 7 percent in Asia over the next 12 months, while full-time domestic employment should increase by 3 percent.

Capital spending will grow by 7 percent, while earnings will rise only 1 percent.

Unlike their Western counterparts, the typical Asian company plans to unleash cash over the next 12 months. The cash will be used for capital spending, acquisitions, marketing, paying down debt and increasing employee pay.

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Detailed results, including tabular summaries of the numbers in this release and results from previous surveys, are available at www.cfosurvey.org.

About the survey: This is the 65th consecutive quarter the Duke University/CFO Magazine Global Business Outlook survey has been conducted. The survey concluded May 30, 2012, and generated responses from 801 CFOs, including 444 from the U.S., 227 from Asia, 102 from Europe, and 28 from Latin America. The survey of European CFOs was conducted jointly with Tilburg University in the Netherlands. The survey of Latin America was conducted jointly with Fundação Getúlio Vargas (FGV) in Brazil. Results in this release are for U.S. companies, unless otherwise noted.

The Duke University/CFO Magazine 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 less than one percentage point (e.g., capital spending is expected to increase by 4.9 percent with a 95 percent confidence range of 4.4 percent to 5.3 percent, which is a 0.9 percent confidence interval). 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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