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CFO SURVEY: AFFORDABLE CARE ACT COULD CURTAIL HIRING

Note to editors: For additional comment, see contact information at the end of this release. Watch professor John Graham discuss the results (or use this link http://youtu.be/F4oj8d5F9Jo). You may also post this video on your website. Names of CFOs who took part in the survey and agreed to speak with media are available by request.

DURHAM, N.C. -- A significant percentage of U.S. chief financial officers indicate that because of the Affordable Care Act (ACA), they may reduce employment growth at their firms and shift toward part-time workers.

A majority of finance chiefs also believe the full Social Security retirement age should be raised to help close the budget shortfall.

Despite these issues, underlying economic conditions are expected to improve in 2014 and, except in Europe, corporate charitable giving remains strong

These are some of the findings from the latest Duke University/*CFO* Magazine Global Business Outlook Survey, which concluded Dec. 5. The survey has been conducted for 71 consecutive quarters and spans the globe, 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.

EMPLOYMENT EFFECTS OF THE AFFORDABLE CARE ACT

Nearly half of U.S. companies are reluctant to hire full-time employees because of the ACA. One in five firms indicates they are likely to hire fewer employees, and another one in 10 may lay off current employees in response to the law.

Other firms will shift toward part-time workers. More than 40 percent of CFOs say their companies will consider switching some jobs to less than 30 hours per week or targeting part-time workers for future employment.

"The inadequacies of the ACA website have grabbed a lot of attention, even though many of those issues have been or can be fixed," said John Graham, Duke Fuqua School of Business finance professor and director of the survey. "Our survey points to a more detrimental and potentially long-lasting problem. An unintended consequence of the

Affordable Care Act will be a reduction in full-time employment growth in the United States. Companies plan to increase full-time employment by 1.4 percent in 2014, a rate of growth which is down from last quarter and unlikely to put a dent in the unemployment rate. CFOs indicate that full-time employment growth would be stronger in the absence of the ACA."

"I doubt the advocates of this legislation would have foretold the negative impact on employment," said Campbell R. Harvey, a professor of finance at Fuqua and a founding director of the survey. "The impact on the real economy is startling. Nearly one-third of firms may either terminate employees or hire fewer people in the future as a direct result of ACA."

In addition, 44 percent of companies say they will consider reducing health benefits to current employees in response to the ACA.

CHARITABLE GIVING

The survey found that 56 percent of U.S. companies have a corporate budget for charitable donations. This represents a moderate decline, with about 6 percent of companies having terminated charitable donations, mainly due to a squeeze on profits. Among firms that participate in charitable giving, half have increased their giving over the past five years.

Corporate charitable giving varies quite a bit around the globe. Only 5 percent of European companies have an explicit budget set up for charitable giving. In contrast, about 40 percent of Asian and Latin American companies give to charity, as do more than two-thirds of African companies.

SOCIAL SECURITY AND THE BUDGET DEFICIT

Sixty-two percent of CFOs say the full retirement age should be increased to help close the Social Security funding gap.

"There could be some advantages of an older workforce," said David W. Owens, director of research at CFO Publishing. "Retaining older employees helps to retain instituitional knowledge and also can preserve valuable experience. However, companies also point to a number of drawbacks that could result from an older workforce."

These drawbacks include two-thirds of CFOs saying their firms would face higher medical costs due to older workers; nearly 60 percent indicating that fewer advancement opportunities would exist for younger employees, especially at the larger firms in the survey; and half noting their firms would face higher payroll costs, due to higher salaries for long-tenured workers. Other CFOs say that productivity and the ability to hire desirable new employees might also be curtailed.

OUTLOOK FOR 2014

In spite of concerns over the ACA and the budget deficit, many CFOs believe business conditions will improve in 2014.

Fifty-two percent of U.S. business leaders say economic conditions for their firms will be better in 2014 than in 2013. Fifty-two percent of European CFOs believe business conditions will improve in 2014 for their firms, relative to somewhat weak conditions in 2013. CFOs in the developing economies are also more optimistic about 2014, with 60 percent of CFOs in Latin America and Asia, and 59 percent in Africa, expecting improvement.

Full-time domestic employment during 2014 should grow 1.4 percent in the U.S., down from 1.8 percent expected growth in last quarter's survey. Capital spending should increase by a robust 7.3 percent, up from a projection of 4.8 percent last quarter. U.S. companies indicate 2014 will be another strong year for profits, with earnings expected to rise by more than 10 percent.

European conditions are weak relative to the U.S., with flat or falling employment and business spending next year, and earnings growth of only 2 percent.

Latin America CFOs expect employment growth of 3.4 percent in 2014, capital spending growth of 6 percent, and earnings growth of 9 percent. Hiring and business spending growth will be a bit softer in Brazil (2.6 percent and 2.5 percent, respectively)

Rebounding from 2013, African CFOs say employment at their firms should grow by more than 5 percent and median growth in earnings will be 10 percent. Capital spending in Africa will increase by a median 5 percent, though much more rapidily at some firms.

Asian companies will increase full-time employment by about 2 percent overall, with hiring plans varying by country (China: 3.3 percent; Japan: 0.2 percent; India: 3.7 percent). CFOs from Asian companies expect capital spending growth of 4.6 percent, and earnings growth of 7 percent.

TOP CONCERNS

When asked about their top concerns for their companies, CFOs in every region of the world said three internal concerns stand out: the challenge of maintaining profit margins, the difficulty in hiring and retaining qualified employees, and worries about employee morale and productivity.

Other concerns vary by region. European companies are worried about balance sheet and liquidity weakness. Brazilian CFOs are concerned about inflation. U.S. companies list health care costs as one of their key items of focus. And Japanese companies are particularly worried about the difficulty of forecasting corporate performance in 2014.

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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 71st consecutive quarter the Duke University/*CFO* Global Business Outlook survey has been conducted. The survey concluded December 5, and generated responses from 1,016 CFOs, including 400 from the U.S., 245 from Asia, 141 from Europe, 191 from Latin America, and 39 from Africa. The survey of European CFOs was conducted jointly with TiasNimbas in the Netherlands. The survey of Latin America was conducted jointly with Fundação Getúlio Vargas (FGV) in Brazil. The Japanese survey was conducted jointly with Takashi Yamasaki at Kobe University and Kotaro Inoue at Tokyo Institute of Technology. This is the second quarter for the African survey, which was conducted jointly with SAICA in South Africa. Results in this release are for U.S. companies, unless otherwise noted.

The Duke University/*CFO* 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 7.3 percent with a 95 percent confidence range of 6.7 percent to 7.8 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 10 $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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