CFO SURVEY: $10 MINIMUM WAGE WOULD KILL A SIGNIFICANT NUMBER OF JOBS

DURHAM, N.C. -- Increasing the minimum wage nationwide to $10 per hour would lead to substantial job losses among retail, service and manufacturing firms, according to U.S. chief financial officers.

That is just one of the findings of the latest Duke University/CFO Magazine Global Business Outlook Survey, which concluded March 6. Other results include the impact of economic uncertainty, the real estate bubble and Federal Reserve monetary policy.

The survey has been conducted for 72 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.

MINIMUM WAGE

Among firms that indicated whether a wage hike would affect their hiring, nearly half of retail firms (47 percent) and approximately one-third of service and manufacturing companies said they would reduce jobs if the minimum wage rose to $10.

“While a hike in the minimum wage would help low-wage workers who retain their jobs, the unintended negative consequence of job loss would be borne by this same group of workers,” said John Graham, a finance professor at Duke’s Fuqua School of Business and director of the survey. “There is hope for compromise, however. Some firms in these industries already pay above minimum wage and others indicate that a modest hike in the federal minimum wage would cause only modest job loss.”

Only about 10 percent of CFOs in the retail, service and manufacturing industries say they would decrease hiring plans with an $8.50 national minimum wage. The current minimum wage in the U.S. is $7.25 per hour.

ECONOMIC UNCERTAINTY

The survey also found that a majority of CFOs worry about the impact of economic uncertainty on their companies’ future plans.

"More than two-thirds of CFOs (69 percent) are telling us loud and clear that uncertainty due to government economic policies is causing them to hold back on hiring or capital investment, or to increase their cash hoard," said Fuqua professor Campbell R. Harvey, founding director of the survey. "We are facing a nexus of regulatory interventions, ranging from the ACA implementation to the drumbeat of minimum wage increases. Most CFOs (67 percent) point their finger at the regulatory environment as the reason they are throttling back their business expansion."

REAL ESTATE BUBBLES

The possibility of a bursting real estate bubble poses a threat to the global economy.

Ninety percent of Chinese CFOs believe there is a real estate bubble in China. While CFOs assign only a 30 percent likelihood that the Chinese bubble will burst in 2014, 75 percent believe that a deflated real estate market would pose a medium or significant problem for China’s economy.
More than half of CFOs in Brazil and Peru also believe their countries are experiencing a real estate bubble, as do 41 percent of Chilean CFOs.

“If the real estate bubble were to burst in the world’s second largest economy -- China -- the reverberations across the globe would be massive,” Harvey said. “The risks in Latin America are also large. Brazil’s economy has stalled, which increases the likelihood of a sharp drop in property values. While Peru’s economic growth has remained strong, it is worrisome that even there so many CFOs believe a bubble poses a threat.”

In Europe, 31 percent of CFOs believe there is a real estate bubble, with estimates varying across countries. More than 40 percent of CFOs in the UK and in the Netherlands believe their countries are experiencing a real estate bubble.

Real estate bubbles are much less of a concern in the U.S. (16 percent) and Africa (21 percent).

INTEREST RATES AND FEDERAL RESERVE POLICY

In response to a less aggressive Federal Reserve monetary policy, U.S. CFOs expect the borrowing costs faced by their firms will increase by about one percentage point by the end of 2014. Most U.S. companies indicate that an interest rate hike of this size will not curtail economic expansion, with fewer than 15 percent indicating that such an increase would reduce hiring, business spending or borrowing.

“We know from past surveys that many firms can fund expansion based on internal profits,” said David W. Owens, director of research at CFO Publishing. “Among companies that need to borrow, most say that a modest increase in interest rates would not deter them from borrowing to fund investment. In fact, respondents this quarter indicate that interest rates would have to rise by 3 percentage points before their plans would be significantly crimped.”

CFO OPTIMISM

Changing monetary policy has not significantly reduced CFO optimism. Twenty percent of U.S. CFOs say changes in monetary policy have reduced their optimism, while an offsetting 17 percent say their optimism has increased.

Changing Fed policies and the threat of rising interest rates have varying effects on CFOs outside the U.S. About 40 percent of Latin American and 33 percent of African companies say their business optimism is declining because of the Fed’s plans to tighten monetary policy. Optimism has declined at more than 40 percent of Chinese and Japanese firms for the same reason.

European companies are most sensitive to interest rate hikes. The majority of European CFOs say that rates two percentage points higher would reduce hiring, spending and borrowing.

For additional comment, contact Duke’s John Graham at (919) 660-7857 or john.graham@duke.edu.

For commentary about European results, contact TiasNimbas Business School’s Kees Koedijk at +31-6-55186755 or C.Koedijk@uvt.nl.
For commentary on the Latin American results, contact Gledson de Carvalho at +55-11-3799-7767 or gledson.carvalho@fgv.br; or Klenio Barbosa at +55-11-3799-3565 or klenio.barbosa@fgv.br.

For commentary about Japanese results, contact Kobe University’s Takashi Yamasaki at cfosurveyjp@people.kobe-u.ac.jp.

For commentary on African results, contact Kelly Masete at kellym@saica.co.za.

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 72nd consecutive quarter the Duke University/CFO Global Business Outlook survey has been conducted. The survey concluded March 6, and generated responses from 907 CFOs, including 379 from the U.S., 205 from Asia, 138 from Europe, 144 from Latin America, and 41 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 6.8 percent with a 95 percent confidence range of 6.2 percent to 7.3 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 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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