Global CFO Survey: US Outlook Improves, Recession Risk Still Acute

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CONTACTS: Kate O'Sullivan (CFO Magazine)
(617) 345-9700 ext. 3214
kateosullivan@cfo.com
and
Chris Privett (Duke)
(919) 660-8090
chris.privett@duke.edu

CFOs: U.S. OUTLOOK IMPROVES, THOUGH RECESSION RISK STILL ACUTE

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

DURHAM, N.C. – The outlook among U.S. chief financial officers has improved this quarter, with stronger hiring and spending plans relative to last quarter. At the same time, U.S. CFOs remain cautious about the future and peg the odds of a recession by mid-2012 at about 1 in 3.

The situation in Europe is much worse than last quarter, with no growth expected in spending or hiring. The outlook in Asia has also softened.

These are some of the findings of the most recent Duke University/CFO Magazine Global Business Outlook Survey. The quarterly survey, which concluded Dec. 9, asked 1,050 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 63 consecutive quarters, making it the world's longest running research on senior finance executives and one of the most comprehensive surveys of its kind. Presented results are for U.S. firms unless otherwise noted.

SUMMARY OF FINDINGS

-- U.S. finance chiefs plan to expand their workforces by 1.5 percent on average over the next 12 months, a staffing increase that would yield an unemployment rate of approximately 8 percent, down a point from today's 9 percent rate.

-- U.S. CFOs rated their optimism in the nation's economy at 53 this quarter (on a scale from 0 to 100), higher than the recession low of 40 in March 2009, but lower than the long-run average of 60.

-- With the debt crisis continuing to unfold, things are worse in Europe, with optimism down and very little to no growth expected in hiring, business spending, or earnings.

-- Asian CFOs are the most optimistic about 2012, but the outlook has dimmed as CFOs' optimism rating declined to 57 from last quarter's 60.

HIRING AND BUSINESS SPENDING

Hiring plans have improved, with U.S. firms expecting to increase their number of domestic full-time employees by 1.5 percent. The largest employment increases are expected in the transportation and energy sectors and in services/consulting. Finance and media firms expect modest workforce reductions.

"The 1.5 percent increase in employment is an improvement from the 1 percent increase that was projected last quarter," said John Graham, a professor of finance at Duke's Fuqua School of Business and director of the survey. "With a 1.5 percent increase in workforce, national unemployment should fall to near 8 percent by year-end 2012."

Business spending plans also showed signs of recovery this quarter. U.S. firms plan to increase capital spending by nearly 8 percent over the next 12 months, up from 4.5 percent in last quarter's survey. Tech spending should increase by 6 percent and research/development and marketing and advertising spending are expected to grow 2 to 3 percent.

OPTIMISM AND TOP CONCERNS

The U.S. CFO optimism index increased to 53 this quarter from 49 last quarter.

"It's encouraging to see this rebound in optimism because increases in CFO optimism have historically preceded improvements in the overall economy," said Kate O'Sullivan, deputy editor at CFO Magazine. "Still, the level of optimism is low by historic measures, suggesting that economic growth will remain relatively slow."

CFOs cite weak consumer demand, intense pressure on profit margins, the continued high cost of health care and global financial uncertainty among their top concerns for their companies.

LACK OF CONTINGENCY PLANNING

Even with the improved outlook, U.S. CFOs believe there is a 31 percent chance the U.S. economy will enter recession in the next six months.

"Even more worrisome than CFOs' recession fears is that 46 percent of CFOs have no plan in place to deal with a recession next year if it happens," said Campbell Harvey, a Fuqua finance professor and founding director of the survey. "It seems like they will wing it, which is shocking because the risk is substantial at 31 percent as opposed to just a couple of percentage points."

The survey asked the 54 percent of CFOs who have a contingency plan what they would do should a recession occur. "CFOs would slash employment by 8 percent and hack investment spending by 30 percent. And let me emphasize, that is from today's already depressed levels," Harvey said.

In addition, CFOs said they are willing to “cut into the bone” in the event of a recession. The survey shows 69 percent would cut discretionary spending, such as research and development. “Cutting R&D reduces future growth opportunities and destroys long-term value,” Harvey added.

BORROWING

Borrowing conditions have stabilized for most firms. However, among the smallest companies (with fewer than 100 employees), 39 percent say borrowing has become more difficult in 2011, compared to 12 percent of these small firms that say borrowing has become easier.

ADDITIONAL EUROPEAN RESULTS

Many European CFOs believe their countries will soon enter recession or are already in recession.

In contrast to U.S. finance chiefs, nearly two-thirds of European CFOs say they have a recession contingency plan they would implement. Among these firms, the contingency plans call for a dramatic reduction in payroll (greater than 10 percent cut in domestic employment) and business spending (25 percent cut in capital spending).

Of the 90 percent of European CFOs who say the European debt crisis is negatively affecting their businesses, 45 percent describe the negative effect as significant. Half of European firms say it has become more difficult to borrow in the past year, and only 7 percent say it has gotten easier.

ADDITIONAL ASIAN RESULTS

Optimism about the regional economy in Asia fell, with nearly 60 percent of CFOs becoming more pessimistic and only about one-fourth becoming more optimistic. Still, the level of optimism in Asia is higher than in the U.S. and much higher than in Europe.

Wage inflation is expected to be 7 percent during 2012. Domestic employment should increase more than 5 percent.

Half of Asian firms say it has become more difficult to borrow in the past year, and only 11 percent say it has gotten easier.

Three-fourths of Asian CFOs say the European debt crisis is negatively affecting their businesses, with one-fourth saying the negative effect is significant.

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 www.cfosurvey.org.

About the survey: This is the 63rd consecutive quarter the Duke University/CFO Magazine Global Business Outlook survey has been conducted. The survey concluded Dec. 9, 2011, and generated responses from 1,050 CFOs, including 551 from the U.S., 163 from Europe, and 333 from Asia. 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 less than one percentage point (e.g., capital spending is expected to increase by 7.0 percent with a 95 percent confidence range of 7.5 percent to 8.2 percent, which is a 0.7 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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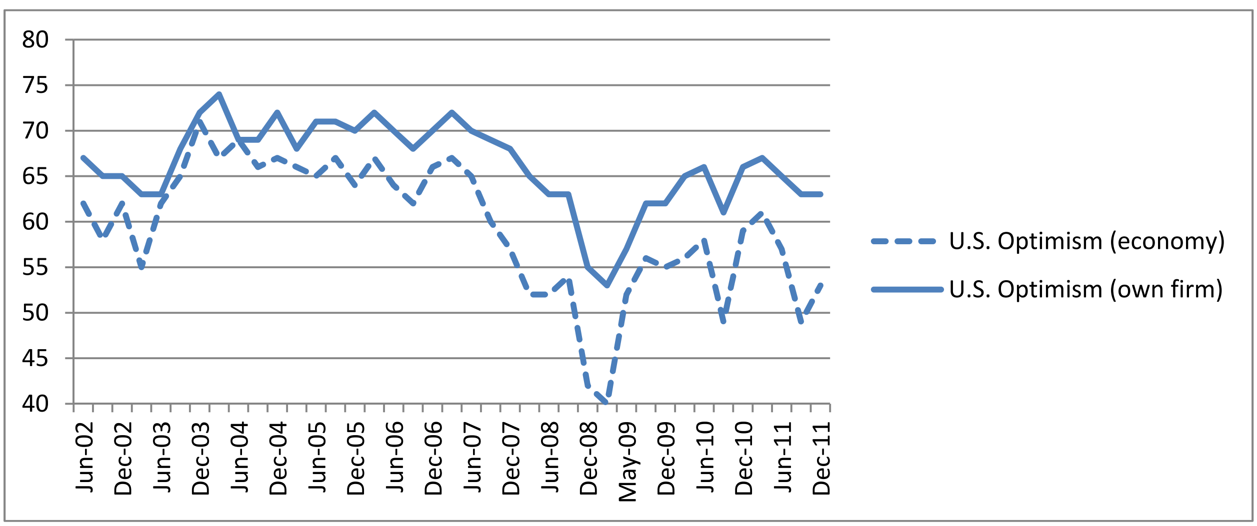

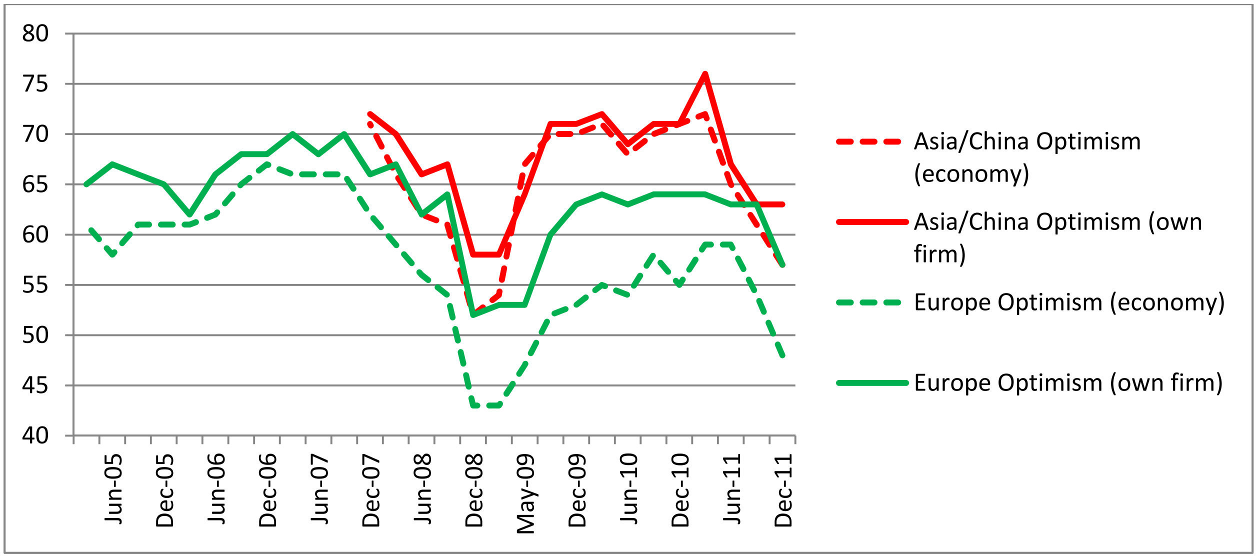
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