Global CFO Survey: Executive optimism at record low, capital spending to slow

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SURVEY: CFO OPTIMISM PLUNGES TO RECORD LOW; CAPITAL SPENDING AND HIRING TO STAGNATE; CONSUMERS, WAGES AND CREDIT MARKETS ARE BIG CONCERNS

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

DURHAM, N.C. -- Optimism about the U.S. economy plunged to a record low this quarter among chief financial officers. CFOs expect slow growth in earnings, capital spending and acquisitions and no growth in hiring. They are very concerned about weak consumer demand, rising labor costs and credit markets.

These are some of the conclusions of the September 2007 Duke University/*CFO Magazine* Business Outlook survey, which asked CFOs from a broad range of global public and private companies about their expectations for the economy. The survey, concluded Sept. 7, generated responses from 1,316 CFOs, including 580 from the U.S., 181 from Europe, 175 from Asia (not including China), and 380 from China. The survey of European CFOs was conducted jointly with RSM Erasmus University in the Netherlands. Results in this release are for U.S. companies, unless otherwise noted.

SUMMARY OF SURVEY FINDINGS:

-- Optimism reached its lowest point since the optimism index launched six years ago. Pessimists outnumber optimists by roughly a four-to-one margin, with 61.7 percent of CFOs more pessimistic and only 13.6 percent more optimistic about the U.S. economy than they were last quarter.

-- Capital spending is expected to increase only 3.2 percent, and domestic employment will be flat, though outsourced employment should rise 5.9 percent.

-- Weak consumer demand, high labor costs and credit market turmoil rank among the top concerns of CFOs.

-- The mergers and acquisitions boom will wither due to tighter and more expensive credit and weaker economic growth; there will be a shift away from private equity buyers toward corporate acquirers.

-- Companies are shrugging off Chinese product safety concerns and International Financial Reporting Standards (IFRS) accounting standards.

PESSIMISM ABOUT U.S. ECONOMY

Pessimism about the U.S. economy increased dramatically, with pessimists far outnumbering optimists. The CFO optimism index for the U.S. economy, begun in June 2001, reached its lowest level ever. (See chart at end of release).

"The optimism index reached a record low, far lower than we have observed previously," said John R. Graham, director of the survey and a finance professor at Duke's Fuqua School of Business. "With pessimists greatly outnumbering optimists, the prospects for the U.S. economy are very poor, with a recession a distinct possibility. The CFO optimism index has a track record of accurately predicting future capital spending, employment and earnings."

CFOs' optimism about their own companies also fell. This quarter, 39.5 percent of CFOs report they are more optimistic about their own company's financial outlook (down from 49 percent in March), while 30 percent of CFOs are more pessimistic about their own firms' financial prospects.

WEAK CONSUMER DEMAND, LABOR COSTS, CREDIT MARKETS TOP CORPORATE CONCERNS

Wage inflation and concerns about weak consumer demand continue to top the list of CFO worries. Wage inflation is the No. 1 concern among U.S. businesses, followed closely by concern about the effects a slowing economy will have on corporate profitability.

CFOs are also very concerned about credit markets. More than a quarter (26.9 percent) of companies say they have been directly affected by recent credit market unrest. Among those affected, 57.8 percent say they have experienced an increased cost of credit (with the average increase being 72 basis points) and 33.1 percent say credit has become less available.

FED POLICY

The survey links potential Fed actions at the Sept. 18 Federal Open Market Committee meeting to corporate borrowing. "Cutting the Fed Funds rate by 50bp is not a panacea to the corporate borrowing problems," said Duke professor Campbell R. Harvey, founding director of the survey. "Forty-five percent of CFOs say that a 50 bps drop will not help their ability to borrow, and another 37 percent say that it would only help a little."

MERGER-AND-ACQUISITION ACTIVITY

Nearly three-fourths of CFOs expect that M&A activity will slow in 2007, with half of firms acknowledging that the slowdown has already begun. Just last quarter, the majority of CFOs expected M&A to stay strong through the remainder of 2007.

"Credit market turmoil is driving the M&A slowdown," said Kate O'Sullivan, staff writer at *CFO* magazine. "A full 86 percent of corporations tell us that tight credit markets will slow M&A, with 63 percent saying that the increased cost in particular will dampen M&A. Another 34 percent of the respondents say that slowing economic growth, itself likely brought on by tight credit markets, will slow merger and acquisition activity. We also expect to observe a shift away from private equity buyers towards corporate acquirers."

CHINESE PRODUCT SAFETY, INTERNATIONAL ACCOUNTING SCANDALS, PRESIDENTIAL CHOICE

US companies are shrugging off recent concern about Chinese products, with 92 percent saying they are not reevaluating their supply chain in response.

Only 14 percent of US CFOs say they are very familiar with International Financial Reporting Standards (IFRS), and fewer than 10 percent say they are very likely to file under IFRS if given the choice.

Twenty-seven percent of CFOs say they would vote for Rudy Giuliani for president, 17 percent for Mitt Romney and 13 percent for Hillary Clinton.

RESULTS UNIQUE TO EUROPE

European optimism sank this quarter. Thirty-seven percent of European CFOs have grown more pessimistic about the economies of their own countries relative to last quarter, and only 26 percent have grown more optimistic.

European employment is expected to remain flat and capital spending should increase by about 7 percent. The cost of labor is the No. 1 corporate concern in Europe, with skilled-labor shortage No. 2 and weak consumer demand No. 3.

Nearly 43 percent of European CFOs are concerned about credit market conditions.

RESULTS UNIQUE TO ASIA

CFO optimism remains strong in Asia, with 59 percent of respondents more optimistic about regional economic growth than they were last quarter. Hiring plans have slowed somewhat (4.4 percent) for the next 12 months, and capital spending is expected to increase a robust 12 percent on average.

Two-thirds of CFOs in Asia say that rising labor costs are eroding their profit margins, and 57 percent say this is causing them to look at new ways to retain staff. One-in-ten Asian firms say that high wage inflation will lead to lower quality of the products they produce.

RESULTS UNIQUE TO CHINA

Chinese CFOs are optimistic, with 41 percent of respondents more optimistic about economic growth than they were last quarter. Employment growth should be strong (10.6 percent) over the next 12 months, and capital spending is expected to increase at a rapid 14.6 percent clip.

Chinese CFOs are most concerned about the increasing labor costs, regulatory changes, currency values and consumer demand.

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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 46th consecutive quarter that the Duke University/*CFO Magazine* Business Outlook survey has been conducted. Among the industries represented in the survey are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, service/consulting and banking/finance/insurance. 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 explicitly noted, all other numbers are for all companies, including private companies.

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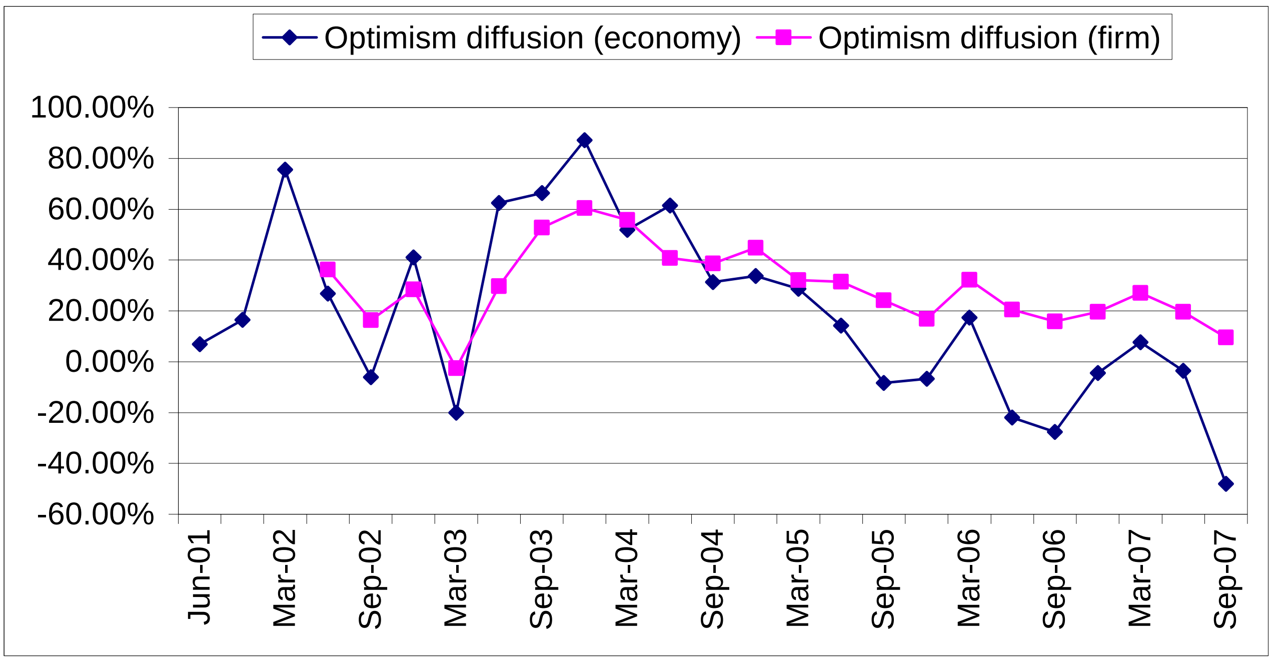
Optimism diffusion measures the percentage of CFOs who have increased optimism minus the percentage who have decreased optimism (through September 2007).



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