

## Global CFO Survey: Recession Not Imminent, But Other Fears Linger

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CFOs: NO DOUBLE-DIP RECESSION

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

DURHAM, N.C. -- Chief financial officers don't foresee a double-dip recession, but doubts about the strength of the economy have pessimists outnumbering optimists by more than five to one in the United States. Business spending is expected to grow, though more slowly than last quarter, and hiring will continue at a sluggish pace.

These are some of the findings of the most recent [Duke University/CFO Magazine](#) Global Business Outlook Survey. The quarterly survey, which concluded Sept. 9, asked 996 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 62 consecutive quarters, making it one of the world's most comprehensive and longest-running surveys of senior finance executives. Presented results are for U.S. firms unless otherwise noted.

### SUMMARY OF FINDINGS

-- CFO optimism plunged in the third quarter, with 65 percent of U.S. executives growing more pessimistic compared with 12 percent who grew more optimistic. European and Chinese optimism also dropped dramatically, with pessimists outnumbering optimists by more than four to one. Optimism in the rest of Asia (not including China) also fell, though by a smaller margin.

-- Capital spending in the U.S. is expected to see solid growth of 4.5 percent, but that is about half the pace predicted last quarter. One-third of firms say they've slowed planned spending this year, citing economic uncertainty and funding constraints.

-- Domestic U.S. employment is expected to rise about 1 percent in the next year, which would likely leave the unemployment rate stalled around 9 percent.

-- Most firms plan to hold onto cash due to great economic uncertainty.

## OPTIMISM AND TOP CONCERNS

Even with some positive signs in capital spending and hiring, optimism among U.S. CFOs fell dramatically this quarter, with 65 percent saying they have grown more pessimistic and only 12 percent growing more optimistic about the outlook for the U.S. economy. This is much worse than last quarter, which saw an even split between optimists and pessimists.

"This significant drop in optimism is being driven by a number of deep concerns: continued weak consumer demand, intense price pressure, and uncertainty about government policies and global financial instability," said Kate O'Sullivan, deputy editor at CFO Magazine.

CFOs also cited the continued high cost of health care, maintaining employee morale, and hiring and retaining highly skilled employees among their top concerns for their companies.

## SPENDING AND CASH HOLDINGS

Firms plan to increase capital spending by 4.5 percent over the next 12 months, down from 9 percent in last quarter's survey and 12 percent six months ago. Spending on research/development and marketing/advertising are expected to grow about 2.5 percent.

"Capital spending had been a primary driver of growth in this tepid economic recovery," said [Campbell Harvey](#), a professor of finance at [Duke's Fuqua School of Business](#) and founding director of the survey. "Looking forward, 4.5 percent growth in capital spending is not bad, and certainly does not indicate an imminent recession."

In the past six months, one-third of U.S. companies say they have delayed or canceled previous plans for capital spending, citing U.S. and global economic uncertainty, lack of access to sufficient funding, weak demand and the regulatory environment.

"Rather than spend, many companies say they will hold onto their hoards of cash," said [John Graham](#), a professor of finance at Fuqua and director of the survey. "While building up and holding onto cash balances may be prudent for any one company, it limits potential growth in the overall economy."

Fifty-seven percent of firms say they will not deploy their cash holdings this year, up from 50 percent nine months ago. CFOs' increased hoarding is based on concerns about credit markets potentially tightening again, extreme economic uncertainty and a lack of attractive investment opportunities.

## EMPLOYMENT

U.S. companies expect domestic employment to increase by 0.9 percent over the next year. This rate of growth is up slightly from last quarter and implies that, over the next year, the U.S. economy will create about 100,000 new jobs each month.

"The U.S. economy needs to create 100,000 jobs per month just to keep up with labor force growth, meaning we are stuck at 9 percent unemployment for the next year," said Graham. "While the employment situation is stagnant, I expected the jobs outlook to be worse, given the extreme drop in optimism and reduced spending plans."

About 29 percent of firms say they pulled back on previous plans to hire. Among these companies, the top reasons for reducing employment plans are the extreme uncertainty about the U.S. economic outlook, lack of available credit, weak product demand and having learned how to operate with fewer employees. The remaining 71 percent of companies went ahead with their hiring plans this year.

“Expected gains of 0.9 percent in hiring and 4.5 percent in capital spending signal slow to moderate economic growth,” Harvey said. “While optimism is lower, two-thirds of CFOs are sticking with their spending and hiring plans. These plans, plus double-digit dividend growth, are inconsistent with a recession mentality. If CFOs thought a recession was forthcoming, we would see capital spending and employment growth in negative territory.”

#### ADDITIONAL ASIAN RESULTS

Optimism about the regional economy in Asia (not counting China) fell, with optimists and pessimists now evenly balanced. Last quarter, optimists outnumbered pessimists by two to one. In China, 69 percent of firms have grown more pessimistic about the economic outlook.

The top internal concern among Asian CFOs is difficulty in planning due to extreme uncertainty, working capital management and employee morale. The top external concerns in Asia are global financial instability, intense pricing pressure and weak consumer demand. Chinese CFOs also worry about government policies.

Full-time domestic employment in Asia is expected to increase by about 7 percent in 2011 and wages will also rise by about 7 percent. Capital spending will increase by more than 10 percent.

Asian manufacturing firms expect capacity utilization to rise to more than 90 percent by year-end.

More than 60 percent of Asian firms say they will begin to deploy cash in the coming year, primarily on capital spending, hiring and benefits, paying down debt and marketing.

#### ADDITIONAL EUROPEAN RESULTS

In the globe’s most financially stressed region, European CFOs are concerned about intense pressure on profit margins, weak demand, financial instability, difficulty in attracting and retaining skilled employees, difficulty in planning due to economic uncertainty and corporate liquidity.

Full-time domestic employment in Europe is expected to fall 0.3 percent.

European CFOs expect flat or declining earnings over the next 12 months. Capital spending should increase by 3 percent.

Sixty percent of European CFOs think the downgrade to the U.S. credit rating was justified, though only one in five thinks the economic effects of the downgrade will be significant.

The majority (56 percent) of European CFOs think the economies in Europe and in the U.S. are equally bad, though most of the remaining 44 percent think the U.S. situation poses the greater threat to the world economy.

European CFOs rank China, Germany, and Sweden as having the strongest economies. They rate the U.S. economy below France's and one spot above Spain, Italy and Portugal.

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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](http://www.cfosurvey.org).

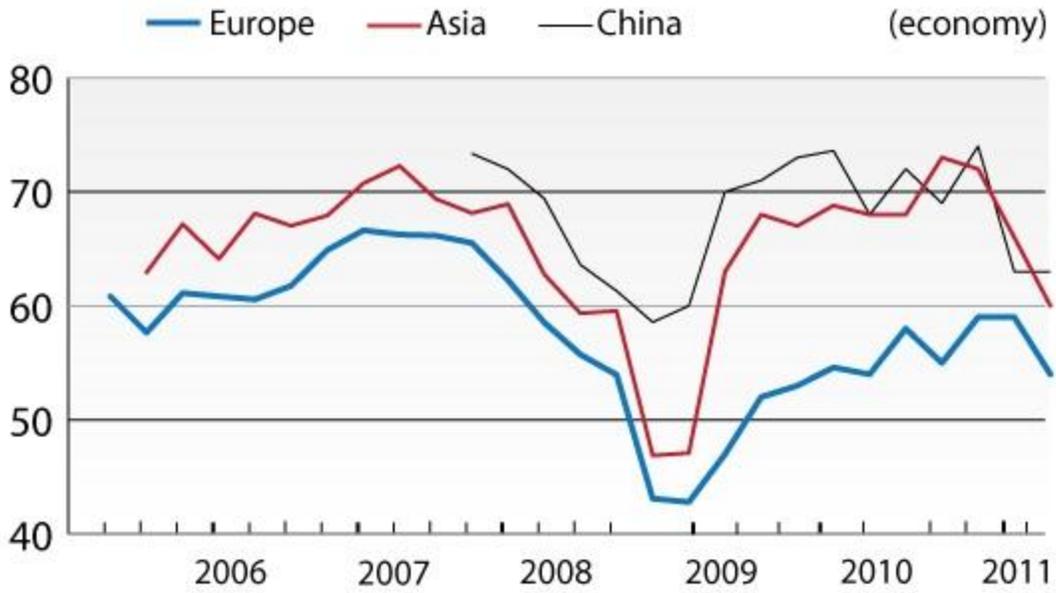
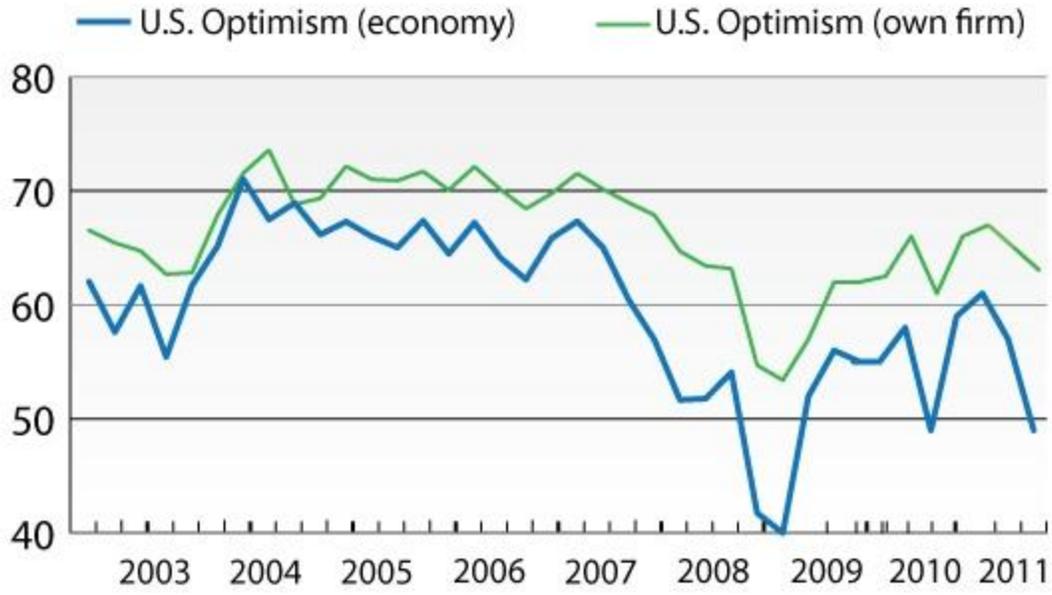
About the survey: This is the 62<sup>nd</sup> consecutive quarter the Duke University/CFO Magazine Global Business Outlook survey has been conducted. The survey concluded Sept. 9, 2011, and generated responses from 996 CFOs, including 494 from the U.S., 178 from Europe, and 325 from Asia (93 of which are from China). 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 4.5 percent with a 95 percent confidence range of 4.2 percent to 4.8 percent, which is a 0.6 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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