Latin American CFO Survey: Optimism falls but hiring and spending remain strong

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CFOs: LATIN AMERICAN OPTIMISM FALLS BUT HIRING AND SPENDING REMAIN STRONG

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

DURHAM, N.C. – Business optimism fell in Latin America this quarter. Latin American companies are worried about weakening demand, global financial instability, price pressure, governmental policies, and shortage of skilled workers. Seventy-one percent of firms say corruption has a significant negative impact on their firms. Still, hiring and business spending are expected to remain strong.

These are some of the findings of the most recent Duke University/ Fundação Getúlio Vargas / CFO Magazine Global Business Outlook Survey. The quarterly survey, which concluded June 6, asked 811 CFOs around the world, including 38 from Latin America, about their expectations for their firms and the economy. (See end of release for survey methodology.)

The survey has been conducted for 65 consecutive quarters, and spans the U.S., Asia, Europe, and Latin America, making it the world's longest running and most comprehensive research on senior finance executives. This is the first quarter that Latin America has been surveyed. Presented results are for Latin American firms unless otherwise noted.

SUMMARY OF FINDINGS

-- Forty-three percent of Latin American CFOs became more pessimistic about their countries' economies this quarter, compared to only 27 percent who became more optimistic.

-- Earnings, capital spending, and tech spending growth are all expected to rise by 10 percent or more over the next year.

-- Employment growth is expected to average more than 5 percent in the coming year and 8 out of 10 firms say they are actively attempting to hire. Many firms say they are having difficulty filling open job positions. Wages will rise 8 percent in the next 12 months.

-- Companies say inflation in the prices of their products will average 6 or 7 percent in the next 12 months.

-- Corruption has a major effect on the economy: Seventy-one percent of Latin American CFOs say corruption (for example, bribes or fraud) are significant problems, leading to higher prices, reduced quality, less competition, and reduced government tax collections.

-- Latin American CFOs' top concerns include weak demand for their products, intense price pressure, governmental policies, and the challenge of hiring and retaining qualified workers.

FALLING OPTIMISM

Forty-three percent of Latin American CFOs say they have become more pessimistic about the economic prospects of their home countries, compared with their views last quarter. Although on average CFOs are pessimistic, some of them are still optimistic (27 percent).

"This waning optimism is consistent with weaker economic prospects for firms in Latin America and also for the global markets in which they operate," said Gledson de Carvalho, a finance professor at Fundação Getúlio Vargas (FGV) in Brazil and co-director of the Latin American Business Outlook survey. "Interestingly, CFO optimism about their own firms remains strong, suggesting that many Latin companies are poised for rapid growth once the global economic outlook improves."

HIRING, BUSINESS SPENDING TO REMAIN STRONG; SHORTAGE OF SKILLED WORKERS

Business spending by Latin American firms will continue to grow rapidly, averaging 20 percent (median growth of 10 percent) over the next 12 months. Hiring should also remain strong with the number of full-time employees increasing by 7 percent (median of 2 percent) in the next year. Wages should rise 8 percent (median of 5 percent).

"Latin American firms continue to expand rapidly," said Klenio Barbosa, an economics professor at FGV and co-director of the Latin American Business Outlook survey. "Even though growth has softened for the world economy, many firms in South and Central America continue to expand their operations and capabilities. In fact, many of these companies struggle to find employees with the right skill sets."

The large majority of Latin American firms (72 percent) have experienced difficulty in filling open job positions. The main strategies to overcome a shortage in qualified employees are to hire employees that are 'too junior for the job' and train them, offer improved benefits, and bid up salaries. "These actions contribute to the upward pressure on wages and salaries," noted Barbosa.

TOP CONCERNS

Latin American CFOs say they are concerned about their ability to maintain adequate profit margins, in part due to intense price pressure, a softening of consumer demand and global economic instability. Other top concerns include attracting and retaining qualified employees as well as maintaining employees' morale and productivity.

"Latin American CFOs and their firms face a number of challenges, as they attempt to keep up with rapid growth internally while at the same time adjusting to a global economic slow-down," said [John Graham](), a professor of finance at [Duke's Fuqua School of Business](), and director of the Global Business Outlook survey of which the Latin American survey is part. "These firms also deal with supply chain risks and the difficulty in planning in the midst of such extreme uncertainty."

CORRUPTION

Corruption is a major concern in Latin America: 71 percent of LA CFOs say corruption has a significant negative impact on their businesses. Most of the Latin American survey respondents say corruption leads to slower growth, higher prices, and reduced competition. This number becomes more impressive when one compares to Asia (another developing region), where only 35 percent of executives say corruption is a significant issue. In contrast, in the U.S., only 8 percent of the finance executives say business corruption affects their activities.

FUNDING SOURCES

Latin American CFOs report the main sources of funding for their company in the previous 12 months were internal (profits and provision for depreciation), long-term bank loans and bonds. These findings are consistent with the fact that credit markets and interest rates are not big concerns for Latin American executives.

"Interesting, the availability of bank credit for Latin American corporations seems not to be affected by the recent European sovereign debt crisis," said de Carvalho. "This implies that firms may have access to external source funding to increase capital and tech spending in the next 12 months," noted Barbosa.

RESULTS SPECIFIC TO THE U.S., ASIA, AND EUROPE

Please visit www.cfosurvey.org for global results.

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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: The Latin American Business Outlook is a quarterly survey of financial executives that is part of the Global Business Outlook survey. The survey concluded June 6, 2012, and generated responses from 811 CFOs, including 444 from the U.S., 227 from Asia, 102 from Europe, and 38 from Latin America. The Global Business Outlook has been conducted 65 consecutive quarters by Duke University and CFO Magazine. Duke, CFO, and Fundação Getúlio Vargas (FGV) jointly conduct the Latin American Business Outlook. This is the first quarter the survey has included Latin America. The survey of European CFOs is conducted jointly with Tilburg University in the Netherlands. Results in this release are for Latin companies, unless otherwise noted.

A wide range of companies (public and private, small and large, many industries, etc.) are polled, with the distribution of responding firm characteristics presented in online tables. 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. 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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