

Latin American CFO Survey: Optimism strong but firms worried about the court system

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CFOs: LATIN AMERICAN BUSINESS OUTLOOK OPTIMISTIC; CONCERNS ABOUT THE COURT SYSTEM

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

DURHAM, N.C. – CFOs in Latin America voiced optimism about the economy and expect hiring to remain moderately strong, yet expressed caution about weakening demand, difficulty in maintaining profit margins, a shortage of skilled workers, global financial instability, governmental policies and negative impact from the judicial system.

These are some of the findings of the most recent [Duke University](#)/Fundação Getúlio Vargas/[CFO Magazine](#) Latin America Business Outlook [survey](#). The quarterly survey, which concluded September 7, asked 1,474 CFOs around the world, including 164 from Latin America, about their firm's expectations and the economy. (See end of release for survey methodology.) The Latin American edition is a part of the Global Business Outlook Survey which has been conducted for 66 consecutive quarters. It spans the U.S., Asia, Europe and Latin America, making it the world's longest running and most comprehensive research on senior finance executives. Presented results are for Latin American firms unless otherwise noted.

#### SUMMARY OF FINDINGS

-- Thirty-eight percent of Latin American CFOs are growing more optimistic about their countries' economies this quarter, compared to 35 percent who are growing more pessimistic.

-- Employment growth is expected to average nearly 3 percent over the next 12 months in Latin America. Many firms in Latin America say they are having difficulty finding employees with the right skill sets. Wages are expected to rise 7.4 percent.

-- The judicial system creates a negative drag on Latin American economies: 68 percent of CFOs say the judiciary is a significant problem, due to delays, high costs, and an unclear decision-making process.

-- CFOs say their companies' product prices will rise on average 4.4 percent due to inflation.

-- CFOs' top concerns relate to weak demand for their products, a shortage of skilled workers, governmental policies and ability to maintain margins.

#### LATIN AMERICAN CFOs OPTIMISTIC

Economic optimism remains strong in Latin America. On a scale from 0 to 100, Latin American CFOs rate the optimism in their countries' economies at 60. In comparison, the United States optimism level is 52 and in Europe 49. (Asian CFOs also rate their optimism level at 60.)

The Latin America country with the strongest optimism number is Chile (69) followed by Peru (68). Brazil's level comes in at 63, while Venezuela and Argentina are at only 58 and 40, respectively.

"Research indicates that when CFOs are optimistic about the economy, strong economic growth occurs over the next year," said [John Graham](#), a professor of finance at [Duke University's Fuqua School of Business](#) and director of the Global Business Outlook survey.

#### HIRING, BUSINESS SPENDING TO GROW MODERATELY; SHORTAGE OF SKILLED WORKERS

Revenue growth should average 10.5 percent over the next year in Latin America. Hiring should remain moderately strong, with the number of full-time employees increasing by 2.9 percent in the next year. Wages should rise 7.4 percent. Business spending by Latin American firms will expand by 3.5 percent.

"Latin American firms continue to expand fairly rapidly," said Gledson de Carvalho, a finance professor at Fundação Getúlio Vargas (FGV) in Brazil and co-director of the Latin American Business Outlook survey. "Even though growth has softened for the world economy, many Latin American firms continue to expand their operations and capabilities. Interestingly, in almost every category, growth will be stronger in Brazil than in Latin America overall, primarily because the Brazilian government has undertaken several macroeconomic policies which aim to stimulate domestic demand and maintain high economic growth in Brazil. We will likely see the positive effect of those policies in the next few months."

The greatest concern among CFOs is maintaining profit margins. Almost half (48 percent) of Latin American firms report difficulty in attracting and retaining qualified employees, the CFOs' second greatest concern.

"The problem is more acute in Brazil, where 57 percent of companies struggle to find fully qualified employees," added de Carvalho. "Fortunately, we know from last quarter's survey that Latin American firms are willing to hire junior level employees and train them to fill open positions."

#### CONCERNS ABOUT JUDICIAL SYSTEM

The judicial system is a major concern in Latin America: 68 percent of CFOs say that it is a significant or very significant risk factor for their firms. Fewer than one-in-ten firms say that the courts are not a significant problem.

"Concerns about the judiciary are much higher in Latin America than in other regions of the world," said Klenio Barbosa, an economics professor at FGV and co-director of the Latin

American Business Outlook survey. "Only about 30 percent of U.S., Asian and European firms have significant concerns about the judicial systems in their countries, while 68 percent of the Latin America firms see the judicial system as an important risk factor for their companies."

"Judicial concerns vary by country within Latin America," added Barbosa. "More than three out of four companies in Venezuela, Argentina, and Central America are worried about adverse effects by the courts. In contrast, only about half of the firms in Peru, Chile, and Mexico are significantly worried about judicial system. Brazilian companies share the same opinion about the court system as the Latin America overall."

Several aspects of the Latin American court system concern business leaders. Sixty-five percent of companies are worried about the quality of the decisions handed out by judges, while another 63 percent mention concern about judicial procedures. Nearly 60 percent cite long delays until the courts hand down decisions, and about half mention expensive court costs. Interestingly, the cost of judicial system in Latin America matters, ranked as the fourth biggest concern.

#### SPILOVER FROM WEAK GROWTH IN EUROPE AND ASIA

Weaker growth in Asia and especially in Europe is hurting Latin American companies.

Fifty-two percent of Latin America firms report that weak European economic growth is hurting their companies. If the Eurozone were to unravel, nearly two-thirds of Latin American CFOs say they would be negatively impacted. Approximately 40 percent of companies report that weaker growth in Asia is negatively affecting their firms.

The effects of weaker growth in Asia and Europe are stronger in Brazil than elsewhere in Latin American. Sixty-four percent of the Brazilian firms say that weak European economic growth is hurting their company. Approximately 82 percent of Brazilian CFOs say they would be impacted if Eurozone collapses. Weaker growth in Asia will negatively affect 47 percent of Brazilian firms.

#### INVESTMENT PLANS AND BORROWING COSTS

Latin America CFOs say that changes in borrowing costs do not affect their investment decision. Fifty-eight percent of companies say that they would not initiate, accelerate or increase investment projects in the next year in response to an interest rate decrease. Only 5 percent say that that they would increase business spending if the interest rates were to decrease by 1 percentage point.

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

Please visit [www.cfosurvey.org](http://www.cfosurvey.org) for global results.

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For additional comment, contact

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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: The Latin American Business Outlook is a quarterly survey of financial executives that is part of the Global Business Outlook survey. The survey concluded September 7, 2012, and generated responses 1,474 CFOs, including 887 from the U.S., 257 from Asia, 166 from Europe, and 164 from Latin America, from which 65 are Brazilian companies. The Global Business Outlook has been conducted 66 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 second 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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Fundação Getúlio Vargas (FGV) was founded in 1944. FGV is an educational center of quality and excellence that dedicates its forces to the intellectual development in Brazil. Its mission is to push the boundaries of knowledge in social sciences and related fields through the production and dissemination of ideas, data and information, as well as their preservation and systematic organization; to contribute to the country's social and economic development, improving the nation's ethical standards, promoting a responsible and shared government, and inserting the country into the international stage. For more information, visit [www.fgv.br](http://www.fgv.br).

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