

Global CFO Survey: Dismal Economic Outlook Until 2009

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CFO SURVEY: ECONOMY NOT EXPECTED TO REBOUND UNTIL SUMMER 2009; LAYOFFS EXPECTED; INFLATION INCREASING

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

DURHAM, N.C. – Chief financial officers do not expect the U.S. economy to begin to recover until 2009 or later. Domestic employment is expected to fall and inflation is expected to increase by 4.1 percent. Capital spending plans have been scaled back for the third consecutive quarter.

These are some of the findings of the second quarter 2008 Duke University/CFO Magazine Global Business Outlook survey, which asked more than 1,000 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 survey has been conducted 49 consecutive quarters.

SUMMARY OF FINDINGS

- 71 percent of CFOs say the U.S. economy will not begin to rebound until 2009, with 54 percent saying the rebound will not occur until mid-2009 or later.
- Domestic employment is expected to fall 0.2 percent over the next 12 months. Capital spending is expected to increase only 2.3 percent.
- Nearly half of companies are passing along higher fuel and non-fuel input costs to customers in the form of higher prices. This will exacerbate inflationary pressures, with prices expected to increase by 4.1 percent.
- 53 percent of CFOs are more pessimistic about the U.S. economy this quarter and only 21 percent are more optimistic.
- High fuel costs and weak consumer demand are the top concerns among CFOs. Credit markets and difficulty in attracting and retaining high quality employees are also significant worries.
- Among firms directly hurt by the credit crunch, 58 percent say credit is hard to find, and nearly half say their borrowing costs have increased (by 141 basis points on average). Among these same firms, nearly 60 percent say they will reduce investment or hiring in response to the adverse economic conditions.

SLOW ECONOMY TIL MID-2009; SIGNS OF STAGFLATION

The U.S. economic environment will not improve until mid-year 2009 or later, according to more than half of CFOs.

"This could be the longest slowdown since the double dip recession of 1979-81," said John R. Graham, director of the survey and a finance professor at Duke's Fuqua School of Business. "Our survey indicates that CFO optimism is bottoming out near record lows. (See chart at the bottom of this release.) Even more worrisome, there is evidence of stagflation – slow economic growth and rising unemployment combined with inflation."

CFOs expect the employment picture to worsen. They plan to reduce domestic workforces by 0.2 percent. At the same time, the CFOs say prices of their own products will rise by 4.1 percent over the next 12 months. This grim outlook for consumers is compounded by capital spending that is expected to rise only 2.3 percent, and anemic earnings growth of only 2.9 percent.

TOP CONCERNS: FUEL COSTS, CONSUMER DEMAND, FINDING QUALIFIED EMPLOYEES

High fuel costs have risen to a virtual tie with weak consumer demand as the top corporate concern this quarter. CFOs continue to worry about credit markets. Difficulty in attracting and retaining high quality employees is the top concern CFOs have about their own companies' operations, followed by the difficulty of planning in the uncertain economic environment.

"In recent years, U.S. companies have largely shrugged off increasing fuel costs," said Kate O'Sullivan, senior writer at CFO Magazine. "This quarter, for the first time in the history of our survey, fuel costs are tied as the top corporate concern. Significantly, also for the first time, a majority of companies tell us they have taken explicit actions in response to increased fuel costs."

Six out of 10 CFOs say their firms have taken steps to reduce the impact of rising fuel costs. Among these firms, 45 percent have passed the higher input costs along to their customers by raising prices. Another 45 percent have reduced business travel, 43 percent have improved facility management efficiency, and more than one-third have shifted to more efficient shipping methods. Another one-fourth say their companies have reduced their profit margins because of high fuel costs. Thirteen percent have increased the use of financial derivatives to hedge high fuel costs.

"Rising fuel costs are seeping into the overall price level, contributing to inflationary expectations of over 4 percent," O'Sullivan noted.

ECONOMY IN CRITICAL CONDITION, BUT STABILIZING

With nearly 40 percent of all surveyed firms delaying, reducing or cancelling new investment plans, economic growth will be severely compromised. Indeed, CFOs' investment plans over the next six months retreat from the already modest plans of the past six months.

"For the last several quarters, CFOs reported bad news and more bad news. This quarter, we're seeing bad news with a little bit of good news," remarked Duke Professor Campbell R. Harvey, the founding director of the CFO survey.

"The bad news is that the credit crisis is devastating lower-rated firms. Eighty-two percent of these companies have been hurt directly by the credit crunch, with the cost of credit increasing by a staggering 331 basis points among firms rated B or lower," added Harvey.

On the positive side, the level of optimism has improved. "In the fourth quarter of 2007 and the first quarter of 2008, pessimists outnumbered optimists by an 8 to 1 margin. This quarter, the ratio has improved to roughly 3 to 1, potentially indicating stabilization," Harvey said.

In reference to market buzz about the Fed increasing interest rates later this year, Harvey cautioned against reversing the lowered interest rates that have helped the economy: "This not the time to cut off the meds."

EUROPE

European CFOs have become very pessimistic. Roughly 64 percent of European CFOs have grown more pessimistic about the economies of their own countries relative to the previous quarter, and only 8 percent have grown more optimistic. (See chart at bottom of release.)

European employment is expected to fall 1.2 percent. Weak consumer demand is the top macro-concern in Europe, followed by the cost of fuel.

European capital spending is expected to grow by only 2.8 percent and earnings will increase by just 3.1 percent.

ASIA

CFO optimism fell dramatically in Asia, reaching a new low. About 62 percent of respondents have become more pessimistic about regional economic growth than they were last quarter, and only 21 percent have grown more optimistic. While this decline in optimism is greater than in the U.S., the absolute level of Asian optimism (60 on a scale of 0 to 100) remains higher than the U.S. (52) and European (56) absolute optimism levels.

Domestic Asian employment should increase 3.3 percent over the next 12 months, and CFOs expect to increase capital spending by 6.7 percent on average. Wages should jump by 6.2 percent.

About 35 percent of Asian CFOs say the current U.S. slowdown has not negatively impacted their firms, and another 27 percent say the impact, while negative, is less than it would have been five years ago. Among firms negatively affected by the slowdown in the West, 71 percent say the slowdown has led to reduced customer orders, and 40 percent say customers are demanding price discounts.

CHINA

Chinese capital spending is expected to increase 8 percent, and hiring will rise 7.7 percent.

Most Chinese CFOs believe the recent earthquake in Sichuan will have a mild negative effect on the overall Chinese economy, though a dissenting 26 percent say the effect will be huge and lead to inflation.

Nearly 40 percent of Chinese CFOs say their firms have felt governmental pressure to contribute to earthquake relief efforts.

For additional comment, contact Duke's John Graham at (919) 660-7857 or john.graham@duke.edu or *CFO Magazine's* Kate O'Sullivan at (617) 345-9700 (x214) or kateosullivan@cfo.com. For commentary about European results, contact Janet Kersnar at +44 0 20 7576 8100 or janetkersnar@cfoeurope.com or Tilburg's Kees Koedijk at +31-6-55186755 or C.Koedijk@uvt.nl. For commentary about Asian results, contact Don Durfee at +852 2585 3275 or dondurfee@economist.com. For commentary about Chinese results, contact Chen Wu at +86-21-64737128 ext 24 or chenwu@economist.com

Detailed results, including tabular summaries of the numbers in this release and results from previous surveys, are available at <<http://www.cfosurvey.org>>.

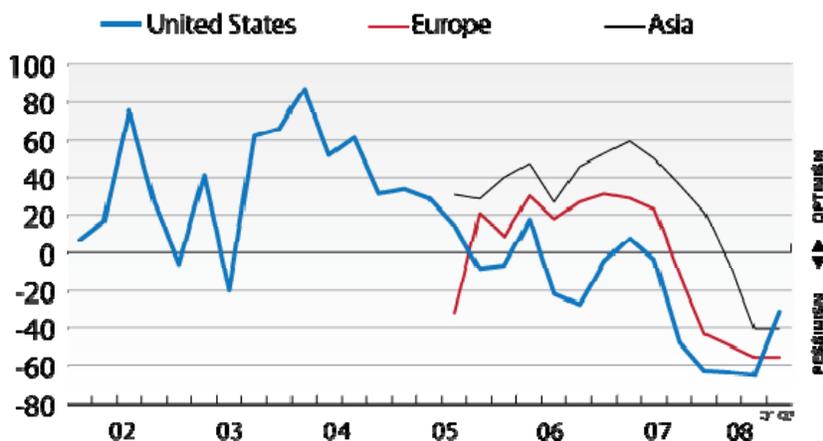
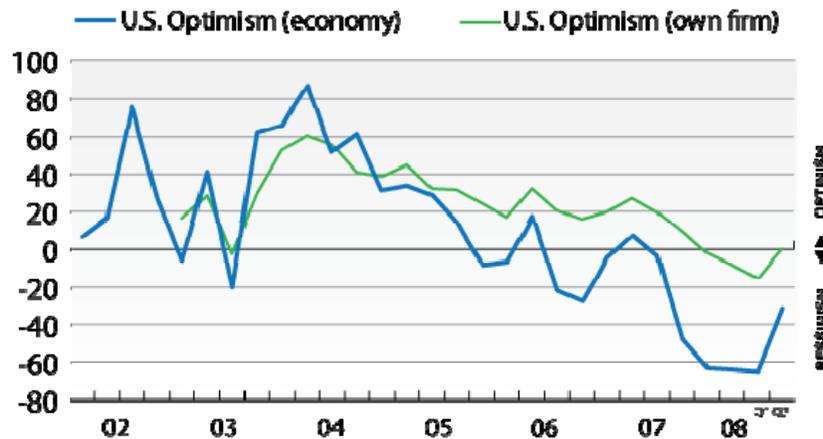
About the survey: This is the 49th consecutive quarter that the Duke University/*CFO Magazine* Global Business Outlook survey has been conducted. The survey concluded June 13 and generated responses from 1,051 CFOs, including 468 from the U.S., 163 from Europe, 208 from Asia (not

including China), and 212 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. 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 June 2008).



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