Global CFO Survey: Employment Outlook Bleak, But Business Prospects Improve

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CFO SURVEY: JOBS OUTLOOK BLEAK AND CREDIT TIGHT, BUT OPTIMISM IMPROVES

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

DURHAM, N.C. – Chief financial officers expect business conditions to improve in 2010, but U.S. and European chief financial officers say their companies will continue reducing their workforces in the coming months.

In another sign of a weak recovery to come, nearly half of companies that recently cut capital spending, employment, and training say these cuts have permanently hurt their company's long-term growth prospects. And tight credit markets continue to constrain economic growth, especially for small firms.

These are some of the findings of the most recent Duke University/CFO Magazine Global Business Outlook Survey. The survey, which concluded Dec. 11, asked 1,431 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 55 consecutive quarters.

SUMMARY OF FINDINGS

-- CFO optimism has improved from recession lows, but remains below long-run averages, and U.S. optimism lags behind the rest of the world (See graph at bottom of release.)

-- U.S. companies expect to reduce domestic workforce by 1.6 percent in 2010, while the number of outsourced jobs will increase. Two-thirds of companies say their employment will not return to pre-recession levels until 2011 or later.

-- Among companies that recently instituted furloughs or reduced workforce, overtime, wages, 401(k) matches, or company contributions to health and other benefits, most say these cuts will not be restored in 2010. Nearly half of CFOs feel these and other cuts have reduced their company's long-term growth prospects.

-- Business conditions will improve somewhat in 2010, with earnings expected to rise 7.4 percent. Small increases are planned in capital spending, research and development, and marketing, an improvement from negative projections last quarter. Companies have begun to stockpile cash.

-- CFOs' top economy-wide concerns include weak consumer demand, federal government policies, price pressure and credit markets. Top concerns about their own businesses include profit margin maintenance, difficulty planning due to economic uncertainty, employee morale and liquidity management.

BLEAK EMPLOYMENT OUTLOOK

Three-fourths of U.S. companies say they have reduced workforce during the recession, and they expect it will take 32 months to return to pre-recession staffing levels. More cuts are expected in 2010. U.S. companies say they will reduce domestic employment by 1.6 percent next year, and Europeans predict a 2.6 percent drop. At the same time, CFOs expect to increase the outsourcing of jobs to overseas locations.

Sixty-one percent of U.S. firms reduced overtime hours during the recession, and 30 to 40 percent reduced hours worked, furloughed employees, eliminated 401(k) matches or reduced the company contribution to health benefits and other benefit plans. Among firms that made cuts in these areas, about two-thirds do not expect to restore these programs or benefits in 2010.

“The economy has begun to show signs of life, but improvement in corporate performance appears to be coming on the backs of the employees,” said Kate O’Sullivan, senior editor at CFO Magazine. “During the recession, in addition to layoffs, companies cut numerous employee programs and benefits, and few companies plan to restore these programs in the coming year. The bottom line is the CFOs are telling us that double-digit unemployment will continue through 2010. This is troubling, as CFOs predicted unemployment above 10 percent long before others gave the notion any credibility.”

One bright spot in the employment outlook is that two-thirds of firms say they will increase workforce in 2010 if demand for their product increases sufficiently.

LONG-LASTING RECESSION EFFECTS

Nearly half of U.S. firms say they have made cuts or taken actions that they expect to permanently damage their long-run prospects. The most damaging cuts are deep reductions in workforce, training and professional development, marketing expenditures and corporate investment.

“The recent retrenchment in the corporate sector will have negative long-term consequences,” said Campbell Harvey, founding director of the survey and international business professor at Duke’s Fuqua School of Business. “A staggering 46.6 percent of firms have taken actions that hurt their company’s long-term growth. The legacy of these actions will stifle employment growth over the next several years.”

The turmoil in the workplace has harmed employee morale, with 37 percent of CFOs reporting morale at their company is poor or fair; by comparison only 5 percent of firms had poor or fair morale before the recession. Corporate concern over morale is one of the top three concerns that U.S. and European executives have about their companies.

EARNINGS, CAPITAL SPENDING, R&D, WAGES, PRODUCTIVITY

Earnings are expected to rise by more than 7 percent in the U.S. and in China and by 9 percent in Europe. In the U.S., capital spending is expected to rise by nearly 2 percent in 2010, as are marketing expenditures and R&D. All of these numbers are up from last quarter.

“While improved from last quarter, corporate spending and profits are all below long-term averages,” said John Graham, professor of finance at Duke and director of the survey. “Nonetheless, for the first time since 2008, we expect to see positive growth in these crucial areas, suggesting that the corporate sector has bottomed out.”

Companies are able to increase earnings in this difficult environment by becoming more productive with the investments they do make. Productivity is expected to grow by 3.7 percent over the next year.

TOP CONCERNS

U.S. CFOs, who expect to raise the prices of their products by less than 1 percent, say their top external concerns are price pressure from intense competition and weak consumer demand.

The top internal concern is the difficulty in maintaining profit margins.

ADDITIONAL EUROPEAN RESULTS

Optimism is up, but it is still below long-term averages.

In the next 12 months, European companies expect to make cuts in domestic employment (-2.6 percent), capital spending (-3.7 percent), tech spending (-2.8 percent) and cash on the balance sheet (-13.6 percent).

Employee morale is poor or fair at 35 percent of European firms, compared to only 5 percent before the recession.

ADDITIONAL ASIAN RESULTS

According to CFOs, Asian economies look far stronger than the U.S. and Europe. Employee morale is fair or poor at one-third of Asian firms (not including China) and fair or poor at 55 percent of Chinese firms. Only 12 percent of Chinese companies report good or excellent employee morale.

Concerns about price pressure, weak consumer demand, and intense domestic competition are the top three external concerns for Asian CFOs. Top company-specific concerns include maintaining profit margins and difficulty attracting and retaining qualified employees.

Nearly 40 percent of Asian CFOs report that banks are more willing to lend today relative to before the financial crisis, while only 20 percent report banks are less willing to lend. In China, only three percent of firms report bank lending has worsened in the past two years.

Asian firms expect capital spending to increase by more than 15 percent, domestic employment by nearly five percent and earnings by nearly 20 percent.

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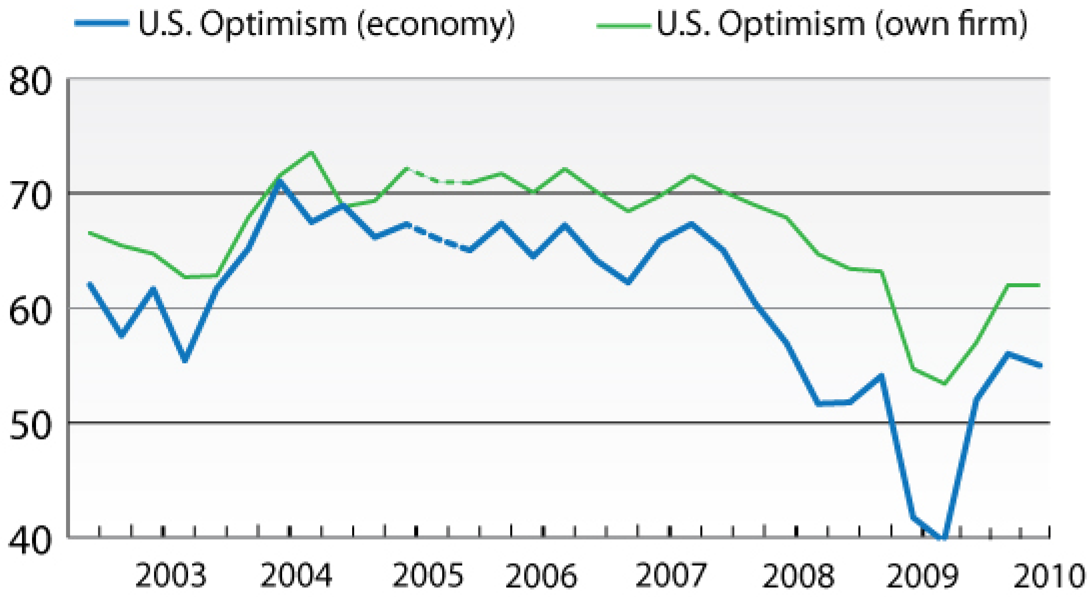
For additional comment, contact CFO Magazine's Kate O'Sullivan at (617) 345-9700 (x214) or kateosullivan@cfo.com, or Duke's John Graham at (919) 660-7857 or john.graham@duke.edu. For commentary about European results, Tilburg's Kees Koedijk at +31-6-55186755 or C.Koedijk@uvt.nl .

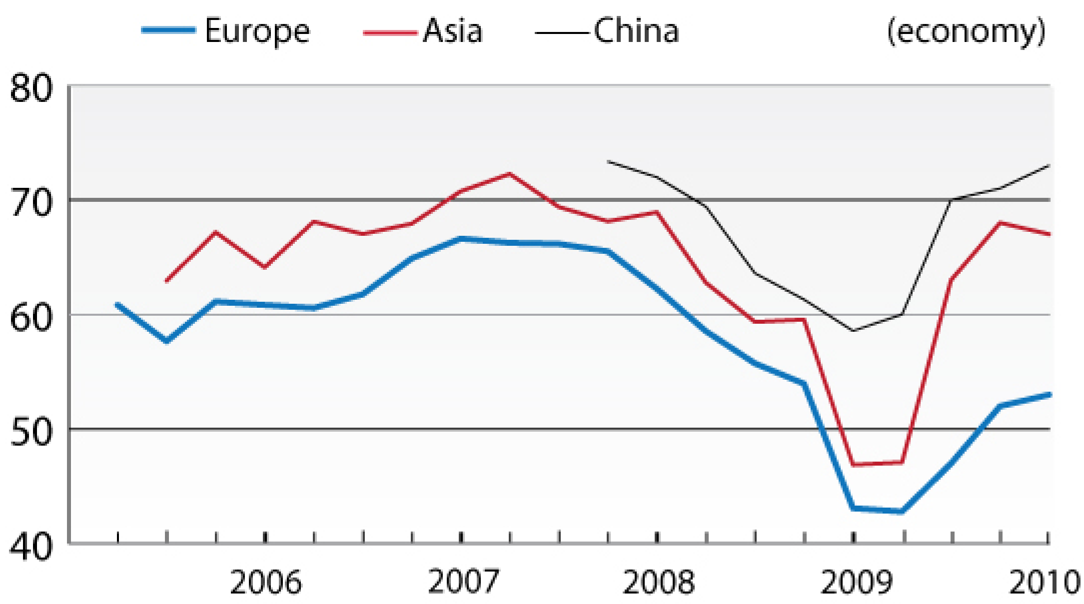
Detailed results, including tabular summaries of the numbers in this release and results from previous surveys, are available at <http://www.cfosurvey.org>.

About the survey: This is the 55th consecutive quarter the Duke University/CFO Magazine Global Business Outlook survey has been conducted. The survey concluded December 11, 2009, and generated responses from 1,431 CFOs, including 567 from the U.S., 184 from Europe, 334 from Asia (not including China), and 346 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 surveys 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 approximately two percentage points (e.g., health care costs are expected to increase by 7 percent with a 95 percent confidence range of 6 percent to 8 percent). 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 10 $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 explicitly noted, all other numbers are for all companies, including private companies.



U.S. Optimism (economy)
U.S. Optimism (own firm)
80
70
60
50
40
2003
2004
2005
2006
2007
2008
2009
2010



Europe
Asia
China
(economy)
80
70
60
50
40
2006
2007
2008
2009
2010

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