

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

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CFOs: BRAZILIAN 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 Brazil voiced optimism about the economy and expect hiring to remain moderately strong. Optimism in Latin America and Brazil is stronger than in the rest of the world, while in Europe optimism is the weakest. Brazilian CFOs expressed caution about weakening demand, difficulty in maintaining profit margins, shortage of skilled workers, global financial instability, and governmental policies. In stark contrast to the U.S., Europe and Asia, the inefficiency of the judicial system is a major business concern in Brazil and Latin America.

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 September 7, asked 1,474 CFOs around the world, including 164 from Latin America (69 from Brazil), about their firm's expectations and the overall economic outlook. (See end of release for survey methodology.) The survey 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 from Brazilian CFOs unless otherwise noted.

SUMMARY OF FINDINGS

-- Forty-nine percent of Brazilian CFOs are more optimistic about their country's economy this quarter, compared to 23 percent on the pessimistic side. This same optimism, although weaker, is spread throughout Latin America where 38 percent of the CFOs are optimistic and 35 percent are pessimistic. This picture differs from the rest of the world where CFOs are less optimistic about their own country (22% more optimistic in the US, 20% in Europe, and 33% in Asia).

-- Employment growth is expected to average 4.2 percent in the next 12 months. Overall in Latin America employment growth is slightly weaker: 3 percent over the next 12 months. Many firms in the region say they are having difficulty finding employees with the right skill sets. Wages are expected to rise 7.6 percent in Brazil and 7.4 percent in Latin America.

-- The judicial system creates a negative drag on Brazil and 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. This is considerably lower than in the US, Europe and Asia, where on average only 30 percent of CFOs are concerned with the judicial system.

-- In Brazil, companies estimate that their product prices will rise on average 5.5 percent in the next 12 months (4.4 percent for overall Latin America).

-- CFOs' top concerns in Brazil relate to weak demand for their products, corporate taxes and high interest rates. In Latin America overall, the main concerns are shortage of skilled workers, governmental policies and ability to maintain profit margins.

LATIN AMERICAN CFOs OPTIMISTIC

Economic optimism remains strong in Brazil. On a scale from 0 to 100, Brazilian CFOs rate their optimism in their countries' economies at 62. In comparison, in Latin America overall optimism is 60; in United States 52; and in Europe 49. Asian CFOs rate their optimism level at 60.

"Research indicates that when Brazilian 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 DESPITE SHORTAGE OF SKILLED WORKERS

Revenue growth should average 14 percent over the next year in Brazil (10.5 percent in Latin America overall), according to the CFOs. Hiring should remain strong in Brazil, with the number of full-time employees increasing by 4.2 percent in the next year (2.2 percent growth in Latin America). Wages should rise 7.6 percent in Brazil (7.4 percent in Latin America). Business spending by Brazilian firms will expand by 6.2 percent (3.5 percent in Latin America).

"Brazilian 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 Brazilian companies 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."

By far, the CFOs' greatest concern in Brazil is maintaining profit margins, with 74 percent rating this as a top concern. The second biggest concern (57 percent) is difficulty in attracting and retaining qualified employees.

CONCERNS ABOUT JUDICIAL SYSTEM

The judicial system is a major concern in Brazil: 68 percent of CFOs say that it is a significant or very significant risk factor for their firms. Fewer than 20 percent of firms say

that the courts are not a significant problem. This same concern also exists throughout Latin America.

“Several aspects of the Brazilian court system concern business leaders,” said Klenio Barbosa, an economics professor at FGV and co-director of the Latin American Business Outlook survey. “Sixty-seven percent of companies are worried about judicial procedures, while another 62 percent mentioned concern about the quality of the decisions handed out by judges. Nearly 61 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.”

“Judicial concerns vary by country within Latin America,” added Carvalho. “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.”

SPILOVER FROM WEAK GROWTH IN EUROPE AND ASIA

Weaker growth in Asia and especially in Europe is hurting Brazilian companies.

Sixty-four percent of Brazilian firms say that weak European economic growth is hurting their company. Similarly, weaker growth in Asia will negatively affect 47 percent of the Brazilian firms. The effect of slower growth in these regions is less for Latin America overall, where 52 percent of firms report that weak European growth is hurting their company.

“A slow-down in Asia is not quite as bad for Brazil as in the rest of Latin America because Brazil is not as impacted by demand for commodities from Asia countries,” says Barbosa.

Approximately 82 percent of the Brazilian CFOs say they would be negatively impacted if the Eurozone collapses. If the Eurozone were to unravel, nearly two-thirds of Latin American CFOs say they would be impacted.

INVESTMENT PLANS AND BORROWING COSTS

Most of the Brazilian CFOs (55 percent) affirm that changes in borrowing costs would not affect their investment decisions. For example, a 2 percent decrease in the interest rate would cause only 36 percent of the firms to increase their business spending.

“This result has important implications because it indicates that there is limited room for monetary policy in Brazil”, says Carvalho. “It also points out that the government was right when it decided to emphasize fiscal policy (increase of public expenses, lower taxes for vehicles, anticipation of tax refund, etc) rather than monetary policy.

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

Please visit www.cfosurvey.org for global results.

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.

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.

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