CFO Survey: Historic Recession to Last Another Year

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(PhysOrg.com) -- Chief financial officers in the United States and around the world are more pessimistic than at any time in the history of the Duke University/CFO Magazine Global Business Outlook Survey. The majority of chief financial officers in the U.S. and Europe say their firms will slash spending and employment in 2009, and their firms will post losses. The recession will last another year, according to nearly two-thirds of CFOs.

These are some of the findings of the year-end 2008 quarterly survey, which asked 1,275 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 51 consecutive quarters.

SUMMARY OF FINDINGS

-- A record 81 percent of U.S. CFOs are more pessimistic about the economy this quarter (twice as many as last quarter), and 85 percent of European and Asian CFOs are more pessimistic.

-- Nearly 60 percent of CFOs say the U.S. economic recovery will be delayed until the fourth quarter of 2009 or later, while 71 percent of European CFOs expect Europe's recovery to be delayed until at least the fourth quarter of 2009.

-- Employment is expected to fall by 5 percent in the U.S. and Europe in

2009, and by 0.5 percent in Asia. Capital spending is expected to fall by about 10 percent in all regions.

-- Weak consumer demand and financial market woes are major concerns for CFOs around the world. More than 70 percent of U.S. and European firms are concerned about the state of their financial institutions. Among users of financial derivatives, 75 percent are concerned about the risk of default. European and Asian CFOs are also worried about currency volatility.

“In September 2007, CFO optimism about the future declined sharply, correctly anticipating the current recession. Throughout the history of our survey, CFOs have shown remarkable ability to predict future economic conditions,” said John R. Graham, director of the survey and a finance professor at Duke’s Fuqua School of Business. “Therefore, the record pessimism CFOs are currently expressing is ominous. Eighty percent of U.S. CFOs have grown more pessimistic about the economic outlook for 2009, and pessimists outnumber optimists by a 9-to-1 margin.”

The CFO optimism index has proven accurate in predicting future GDP growth, employment and capital spending. This quarter’s extreme pessimism foretells a poor economy in 2009. Thirty-nine percent say the economy will not begin to recover until 2010.

TOP CONCERNS: CONSUMER DEMAND, CREDIT MARKETS, EMPLOYEE MORALE AND PLANNING

Weak consumer demand is the top corporate concern. CFOs also continue to worry about credit markets, which are devastating lower-rated firms. Companies rated B or lower face interest rates that are 225 basis points (2.25 percentage points) higher than their cost of borrowing before the crisis began.

“CFOs also have important internal concerns,” said Kate O’Sullivan, senior writer at CFO Magazine. “The uncertainty about both near-term and long-term conditions has made it nearly impossible for executives to plan for the future. Even firms that are doing relatively well are still cutting back 'just in case,' exacerbating the situation. CFOs have also grown very concerned about maintaining employee morale and productivity during these tense times.”

EMPLOYMENT, SPENDING, EARNINGS

The employment picture is equally dismal. U.S. companies say they will reduce workforces by 5 percent on average. At the same time, U.S. companies expect to reduce the number of outsourced employees by a smaller 2 percent.

Capital spending is expected to fall by 10 percent. Tech spending also will suffer, falling by 4 percent on average. Marketing and advertising spending is expected to drop by 7 percent.

Earnings over the next 12 months are expected to decline 9 percent. Worst hurt will be the manufacturing industry (where CFOs say earnings will plummet 19 percent) and the transportation/energy sector (falling 12 percent).

REAL EFFECTS FROM FINANCIAL SECTOR TURMOIL

Among companies that have been affected by credit market turmoil, 62 percent say they cannot access the credit they need, and half say the cost is higher when they are able to access it. About one-third of companies have had difficulty establishing or renewing bank lines of credit. Conditions are worst for lower-rated firms.

“The inability to access credit is just the tip of the iceberg,” said

Campbell Harvey, Fuqua international finance professor and founding director of the survey. “This is also a crisis of confidence. A stunning three-fourths of CFOs say report fundamental concerns about the health of the financial institutions with which they do business.”

Harvey noted that the FDIC recently reported it is tracking only 177 financially troubled institutions out of a total of approximately 8,500 institutions. “CFOs' concerns suggest this is at best a low-ball number, and at worst highly unrepresentative of the health of American financial institutions,” Harvey said.

Harvey said CFOs are in crisis mode. “Right now, job number one for CFOs is to make sure the firm survives –- and they're taking drastic actions. The steep drop in capital spending is three standard deviations below what we would normally expect; advertising has been slashed by four standard deviations. Employment is sharply lower -– 3.5 standard deviations below normal.”

Financial market turmoil is wreaking havoc in other business sectors. More than 75 percent of firms say that, in the current environment, financial constraints have limited their ability to invest in profitable projects.

ADDITIONAL EUROPE HIGHLIGHTS

Among European companies affected by credit market turmoil, 65 percent say the cost of credit is higher when they can access it, and 57 percent indicate they cannot access the credit they need.

Three-fourths of European companies are concerned about the health of the financial institutions with which they do business and 70 percent of European firms say that, in the current environment, financial constraints have limited their ability to invest in profitable projects.

More than half of European CFOs say they do not expect their own country's economy to begin to recover until 2010.
Half of European companies say customers are taking longer to pay their bills, and 46 percent are concerned about a higher risk of no payment at all.

ASIA

Seventy-five percent of Asian firms say financial constraints have limited their ability to invest in profitable projects.

In response to souring economic conditions, 57 percent of Asian companies are freezing staff recruitment, 56 percent are delaying, reducing or canceling planned investments, and 51 percent are reducing travel and entertainment spending.

CHINA

Chinese CFOs say their top concern about their own companies is maintaining the morale and productivity of workers.

Among Chinese companies that have been affected by credit market turmoil, 52 percent say they have had difficulty establishing or renewing a line of credit, and 47 percent say they cannot access the credit they need.

Forty-five percent of Chinese companies have experienced a slowdown in exports, 55 percent have seen delays in payments from customers and 43 percent are concerned about a higher risk of no payment from customers.

Only 8 percent of Chinese CFOs believe the Chinese government stimulus package will substantially jump-start the economy. Seventy-

three percent believe it will provide some cushion (but not an acceleration), and 19 percent say the stimulus is not adequate or will have little effect.

Provided by Duke University