

CFO Survey: U.S. Economy Improving Slowly, But Not Surely

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(PhysOrg.com) -- U.S. chief financial officers say they have limited hiring plans over the next 12 months, and nearly 60 percent won't return their staffing to pre-recession levels until 2012 or later.

Chief financial officers in the U.S. say they have limited plans to hire over the next 12 months, although nearly 60 percent won't return their staffing to pre-recession levels until 2012 or later. Benefits and wages also remain at reduced levels at many firms, and credit is still tight for small firms, which is hindering hiring plans and constraining growth.

The recovery is not completely stalled, however, as CFOs predict strong business spending and earnings growth.

These are some of the findings of the most recent Duke University/CFO Magazine Global Business Outlook Survey. The survey, which concluded June 4, asked 1,102 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 57 consecutive quarters. Presented results are for U.S. firms unless otherwise noted.

SUMMARY OF FINDINGS

-- U.S. CFOs expect to increase domestic employment by just under 1 percent during the next 12 months. It may be several years before employment returns to pre-recession levels, which will weigh on

[consumer spending](#). Fewer than half of companies that cut employment packages expect to restore pay, training, and benefits to their pre-recession levels during the next year.

-- Borrowing conditions remain tight, with roughly an equal split between firms reporting that credit conditions have tightened and those saying credit has eased. One-third of micro-firms (100 or fewer employees) say credit conditions have worsened in the past six months.

-- Earnings are expected to rise 12 percent and capital spending 9 percent in the next 12 months. Research and development and tech spending will increase 4 to 6 percent.

-- CFO optimism has improved slightly, but remains below long-run averages. U.S. and European optimism significantly lag behind Asian optimism. (See graph at bottom of release.)

-- CFOs' economy-wide concerns include weak consumer demand, federal government policies, price pressure and global financial instability. Top concerns about their own businesses include maintaining profit margins, low employee morale and health care costs.

-- Eighty percent of European CFOs say the financial stability of Europe is severely threatened by the financial problems of Greece, Spain and Italy. At the same time, 68 percent agree strong European countries should provide financial support to economically troubled countries. Thirty percent believe Greece should be excluded from the "eurozone," but only 9 percent think Spain and Italy also should be excluded.

EMPLOYMENT, CAPITAL SPENDING, EARNINGS

U.S. companies expect full-time domestic employment to inch up by 0.7 percent over the next year, while temporary employment will fall 0.2

percent. The labor picture is much worse in Europe (with a planned workforce reduction of 1.6 percent) and much stronger in Asia (with expected growth of more than 5 percent).

"U.S. companies plan very little domestic hiring over the next year," said John Graham, professor of finance at Duke's Fuqua School of Business and director of the survey. "However, the rate of improvement is slow and should put only a small dent in the unemployment rate by year-end."

Nearly 60 percent of U.S. CFOs say it will be 2012 or later before employment at their firms returns to pre-recession levels. Among companies that instituted employment-related cuts in the past few years, fewer than half say during the next year they will restore bonuses, overtime, employee training and development, retirement benefits or health benefits to pre-recession levels. About half will restore wages and weekly work hours.

On a positive note, U.S. capital spending is expected to increase 9 percent over the next year, tech spending is expected to rise 6 percent, and advertising/marketing and research/development 4 percent.

Earnings are expected to increase 9 to 12 percent in the U.S., Europe and Asia.

TOP CONCERNS

The top two concerns for U.S. CFOs are weak consumer demand and the federal government's agenda. U.S. CFOs, who expect to raise the prices of their products by 1.5 percent, are also worried about price pressure from intense competition. Maintaining employee morale is among the top company-specific concerns.

"CFOs have a lot to be concerned about right now, both inside their

companies and in the broader global economy," said Kate O'Sullivan, senior editor at CFO Magazine. "Financial officers tell us they are wary about credit market conditions, liquidity at their own firms, and financial instability in Europe."

Health care costs also have reappeared among the top four concerns for U.S. companies, with corporate health care payments expected to rise 8 percent in the next year.

EMPLOYMENT PROBLEMS LINKED TO CREDIT PROBLEMS

Overall credit market conditions have not improved much in 2010. "Despite the narrowing of credit spreads, a large chunk of the U.S. economy is having greater difficulty borrowing today than during the worst days of the credit crisis. A remarkable one-third of small businesses report borrowing conditions are worse today than 2009," said Campbell R. Harvey, a professor of finance at The Fuqua School of Business and founding director of the survey.

"It is no surprise to me that unemployment is -- and will be -- persistently high. Small- and medium-sized firms are the drivers of employment growth in the economy, and they are being squeezed," Harvey said. "Our results show an extraordinary 44 percent of small businesses restricted their capital spending below desired levels because of borrowing difficulties. These capital projects create jobs both today and over the longer term. The continued credit problem makes it inevitable that we will see very high levels of unemployment not just in 2010, but well beyond."

Harvey added that "hiring census workers does not solve the employment problem. Our analysis suggests we need to refocus efforts on the root of the problem. Businesses are not spending on capital projects because of borrowing difficulties. Fixing the credit problem

goes a long way toward creating the conditions for robust employment growth."

EUROPEAN RESULTS

Seventy percent of CFOs believe the emergency lending measures taken to date by European leaders will improve the European economy.

The employment picture in Europe remains bleak. In the next 12 months, European CFOs expect to cut domestic full-time workforce (-1.6 percent) and part-time employment (-4.5 percent). They also plan to reduce marketing and advertising spending (-0.8 percent).

While confidence in Europe's [economy](#) has dipped after several quarters of gains, capital spending and earnings will increase about 10 percent.

Borrowing in Europe has become more difficult: 29 percent of finance executives say borrowing conditions have deteriorated, compared to 19 percent who say conditions have improved in the past six months.

ADDITIONAL ASIAN RESULTS

Top Asian concerns focus on intense price pressure, weak consumer demand, global financial market instability and currency risk.

Attracting and retaining qualified employees is a major concern for Asian companies, especially in China. Other top company-specific concerns include achieving profit margins and maintaining employee morale and productivity.

Asian CFOs expect capital spending to increase by nearly 12 percent, and say earnings will climb by just over 10 percent. Domestic [employment](#) will rise by more than 5 percent in Asian countries.

Among firms that cut employment-related benefits and costs during the [recession](#), the majority have already restored or increased wages, bonuses, hours worked, and retirement and health benefits. Overtime hours are still somewhat restricted.

Provided by Duke University

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