

Global CFO Survey: Executive optimism hits new low, credit markets a major concern

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SURVEY: CFO OPTIMISM HITS ANOTHER RECORD LOW; CAPITAL SPENDING AND HIRING TO STAGNATE; CREDIT MARKETS, CONSUMERS, PRICE OF FUEL ARE BIG CONCERNS

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

DURHAM, N.C. -- Optimism among chief financial officers about the U.S. economy plunged to a record low this quarter, driven by growing concern about weak consumer demand, high fuel costs, rising labor costs and credit markets. This pessimism will slow growth in earnings, capital spending, and hiring.

These are some of the conclusions of the year-end 2007 Duke University/*CFO Magazine* Global Business Outlook survey, which asked CFOs from a broad range of global public and private companies about their expectations for the economy. (See end of release for survey methodology.)

SUMMARY OF FINDINGS:

-- Optimism reached its lowest point since the optimism index was launched six years ago. Pessimists outnumber optimists by an eight-to-one margin, with 72 percent of CFOs more pessimistic and only 9 percent more optimistic about the U.S. economy than they were last quarter.

-- Weak consumer demand, high labor and fuel costs, and credit market turmoil are the top concerns of CFOs.

-- Credit conditions have directly hurt one-third of companies, most through decreased availability of credit.

-- At nearly one in five companies, employees have increased hardship withdrawals from their 401(k) accounts, in many cases to make mortgage payments or ward off personal bankruptcy.

-- Year-end bonuses will fall by 10 percent relative to last year.

-- Among firms with greater than one-fourth of sales in foreign locations, more than 60 percent have taken actions in response to the depreciated dollar by increasing hedging (expanding the range of investments to reduce risk) or changing the location of investments and outsourced employment.

-- Capital spending is expected to increase only 4.1 percent, and domestic employment will increase only 0.5 percent, though outsourced employment should rise 5.6 percent.

PESSIMISM ABOUT U.S. ECONOMY

Pessimism about the U.S. economy increased, with pessimists far outnumbering optimists. The CFO optimism index for the U.S. economy, begun in June 2001, reached its lowest level ever. (See chart at end of release.)

"CFO optimism is spiraling downward, surpassing the record low for optimism set last quarter," said John R. Graham, director of the survey and a finance professor at Duke's Fuqua School of Business. "This is dramatic because CFOs have a track record of accurately predicting future economic activity, and their predictions run one or two months ahead of other common economic indicators. With pessimists greatly outnumbering optimists, we expect weak capital spending, employment and earnings in 2008."

Own-firm optimism tied an all-time low, with pessimists outnumbering optimists for only the second time in the history of the index.

#### MAIN STREET TO THE FED: IT IS TIME FOR ACTION

"The Fed has considerable interest in measuring the potential impact of the credit crisis on the overall economy," said Duke international business professor Campbell R. Harvey, founding director of the survey, "and our survey provides the first direct evidence of the credit fallout."

The survey shows that 19 percent of AAA-rated firms, 38 percent of AA or A firms, and about half of BBB or lower-rated firms have been negatively impacted by credit conditions. "Most disturbingly, one-third will cut capital spending plans as a result of the conditions and one-quarter indicate that hiring plans will be scaled back. These actions are detrimental to economic growth."

"The toxic mix of plunging residential investment and weak non-residential investment is exactly the scenario that the Fed wants to avoid," Harvey said.

Nearly 40 percent of respondents believe a recession will begin in 2008.

"If you believe a recession is imminent, you become very conservative in both capital spending and employment plans," Harvey said. "You go into defensive mode."

The CFOs in the survey support – by a 2-to-1 margin – a cut of 25 basis points at the Dec. 11 meeting of the Federal Open Market Committee. However, a significant number of CFOs are worried about the potential negative impact on the dollar.

#### WEAK U.S. DOLLAR

Nearly half of companies with foreign sales constituting at least 25 percent of total sales indicate the recent depreciation of the dollar has helped their firms, particularly in terms of exports and competitive position abroad. Among multinational U.S. firms, about 80 percent say profits from foreign divisions are helping more than in previous domestic slowdowns, and 36 percent say the impact is moderate or large.

Offsetting these benefits to some degree, the depreciated dollar has hurt nearly one-third of companies because of increased raw materials costs.

"We asked the CFOs whether they think that the dramatic depreciation of the U.S. dollar is permanent, or whether they think it is cyclical and will reverse itself," said Kate O'Sullivan, senior writer at *CFO* magazine. "Among U.S. CFOs, two-thirds say that the dollar depreciation is cyclical and will eventually reverse. Perhaps because of this view, 70 percent of U.S. companies have taken no specific action in response to the dollar depreciation. Only 18 percent have increased hedging and less than 9 percent have changed location of investments or outsourced work."

In contrast, fewer than half of European and Asian CFOs think the U.S. dollar will eventually appreciate, and more than one-third of them have increased hedging in response.

#### CREDIT MARKETS, CONSUMER DEMAND, FUEL AND LABOR COSTS TOP CORPORATE CONCERNS

Concerns about weak consumer demand, fuel costs and wage inflation continue to top the list of CFO worries. CFOs are also very concerned about credit markets, with nearly one-third (32.3 percent) of companies saying they have been directly affected by recent credit market unrest.

Among firms directly affected by the credit turmoil, 47.6 percent say they have experienced an increased cost of credit (median increase of 50 basis points) and 49 percent say credit has become less available. Nearly one-third of these same firms will reduce capital spending plans in response to the credit crunch, and one-fourth will reduce hiring plans.

#### MERGERS AND ACQUISITIONS AND INFLATION

Forty percent of U.S. firms plan to acquire assets in 2008. One-third of those plan to buy a company or companies, and 22 percent plan to acquire assets of another company but not the entire firm.

Companies plan to raise the prices of their products 2.8 percent in 2008, up from the 2 percent expected inflation in last quarter's survey.

#### RESULTS UNIQUE TO EUROPE

European CFOs grew dramatically more pessimistic. In the past quarter, 56 percent of European CFOs have grown more pessimistic about the economies of their own countries relative to the previous quarter, and only 13 percent have grown more optimistic.

European employment is expected to fall 0.6 percent. The cost of labor is the No. 1 corporate concern in Europe, with skilled-labor shortage No. 2, weak consumer demand No. 3 and the cost of fuel No. 4.

One-third of European companies have been directly negatively affected by credit market conditions.

#### RESULTS UNIQUE TO ASIA

CFOs from 82 percent of Asian multinational firms say foreign divisions are being pressured to contribute a greater proportion of overall company revenue growth in 2008.

CFO optimism remains strong in Asia, with 62 percent of respondents more optimistic about regional economic growth than they were last quarter. Domestic employment should increase 9 percent in 2008, and capital spending a robust 11 percent on average.

Thirty-four percent of Asian CFOs think economic growth in China is unsustainable, or on the verge of becoming unsustainable.

#### RESULTS UNIQUE TO CHINA

Sixteen percent of Chinese firms say that they are much less interested in acquiring U.S. firms because of political problems that arose after previous acquisition attempts.

Chinese optimism is down, with 38 percent of Chinese CFOs having become more pessimistic and 31 percent of respondents having become more optimistic about Chinese economic growth than they were last quarter. However, the absolute level of Chinese optimism (72 on a scale of 0 to

100) is on par with overall Asian optimism, and greater than U.S. (57) and European (62) absolute optimism.

Sixty-one percent of Chinese companies say that a U.S. recession would hurt their firms, but only 9 percent say it would hurt a great deal.

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

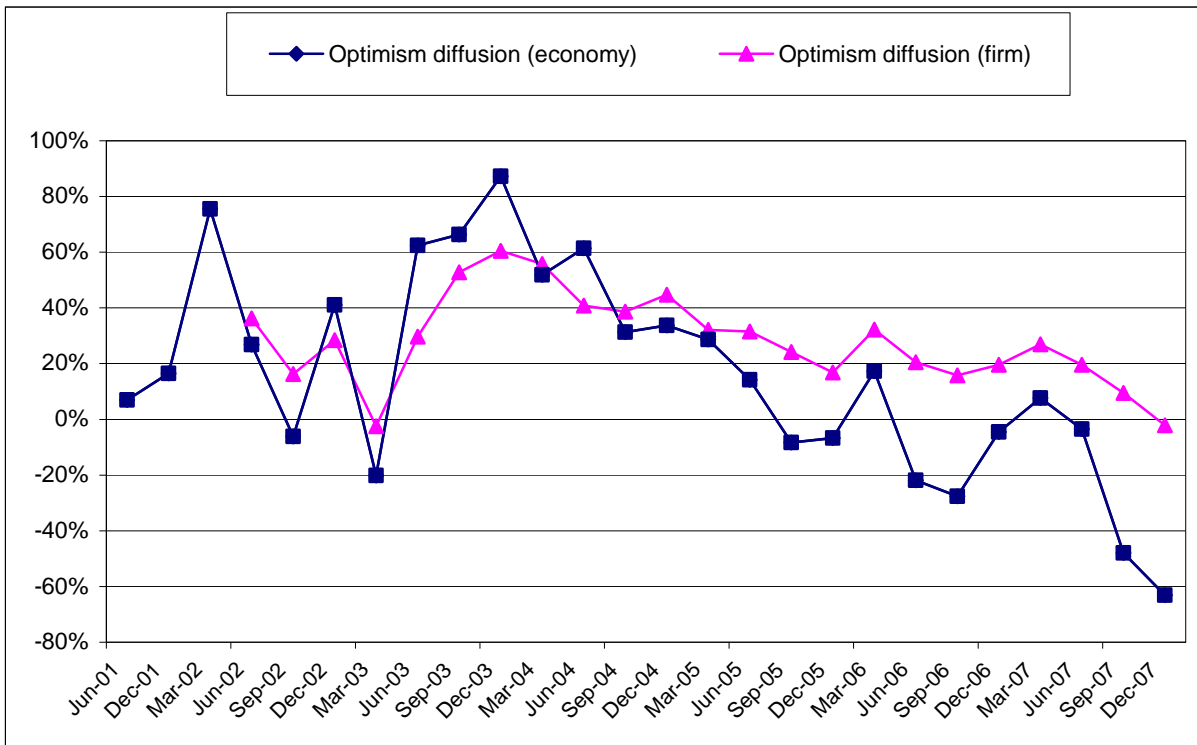
About the survey: This is the 47<sup>th</sup> consecutive quarter that the Duke University/*CFO Magazine* Global Business Outlook survey has been conducted. The survey concluded Nov. 30 and generated responses from 1,275 CFOs, including 573 from the U.S., 191 from Europe, 203 from Asia (not including China), and 308 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 December 2007).



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