

Global CFO Survey: Recession into 2010, Employment and Spending to Fall

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CFO SURVEY: HISTORIC RECESSION TO LAST ANOTHER 14 MONTHS; EARNINGS, CAPITAL SPENDING AND EMPLOYMENT EXPECTED TO DROP IN 2009

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

DURHAM, N.C. -- Chief financial officers in the United States and around the world say the global recession will last well into 2010. Companies plan dramatic cuts to employment and capital spending and anticipate double-digit earnings declines over the next year. Corporations are concerned about the actions of President Obama's administration and Congress, and only one-third believe that federal stimulus activities have helped the economy.

These are some of the findings of the most recent Duke University/*CFO Magazine* Global Business Outlook Survey. The survey, which concluded Feb. 27, asked 1,268 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 52 consecutive quarters.

SUMMARY OF FINDINGS

-- CFOs express record pessimism. (See graph at bottom of release.)

-- Only 35 percent of CFOs say the U.S. economic recovery will begin in 2009, with most CFOs expecting recovery to begin in 14 months. European (16 months) and Asian CFOs (13 months) also expect the recession to last well into 2010.

-- Employment is expected to fall in the U.S. (5.6 percent reduction), Europe (7.6 percent reduction) and Asia (3.2 percent reduction) over the next year. In addition to layoffs, a majority of firms report wage freezes or cuts, as well as reductions in hours worked.

-- Weak consumer demand and financial market woes are major external concerns for CFOs around the world. Working capital management is a primary internal concern, as is maintaining employee productivity and morale.

RECORD CORPORATE PESSIMISM

More than two-thirds of U.S. CFOs have grown more pessimistic about the U.S. economy during the last quarter. On a scale of 0 to 100, U.S. CFOs rate the economic outlook at an all-time low of 40. European and Asian CFOs are similarly pessimistic, rating their economies at 43 and 47, respectively, on a scale of 0 to 100.

"This is very troubling," said Kate O'Sullivan, senior writer at CFO Magazine. "Throughout the history of our survey, CFOs have shown a remarkable ability to predict future economic conditions. They anticipated the current recession as far back as September 2007. Given the CFOs' track record, the historic pessimism CFOs are currently expressing certainly indicates a tough road ahead in 2009."

Consistent with their pessimistic view, CFOs expect earnings to fall by 22 percent at U.S. public companies, and also to fall in Europe (11 percent) and Asia (9 percent). Capital spending is expected to decline in the U.S. (13 percent), Europe (16 percent), and Asia (9 percent). Tech spending will also suffer, falling by about 6 percent in all regions. Marketing and advertising spending is expected to drop by more than 7 percent.

EMPLOYMENT, WAGES AND EARNINGS

Over the next year, domestic employment is expected to fall in all surveyed regions.

"Even with the stimulus plan, CFOs expect to lay off nearly 6 percent of their workforces. This represents a staggering 7.6 million job losses," said Fuqua international finance professor Campbell Harvey, founding director of the survey. "And it gets worse: in addition to the layoffs, many CFOs plan wage freezes and reductions in the number of hours worked for those employees that are retained."

Nearly 60 percent of U.S. companies indicate they will institute a hiring freeze for the next year. In addition, 57 percent will enforce a wage freeze or reduction, with one in five companies expecting to reduce wages over the next year. Thirty-nine percent of companies will reduce employees' work hours.

Among the industries surveyed, service and consulting firms anticipate the strongest earnings in 2009, followed by healthcare companies. Public manufacturing firms expect earnings to fall 30 percent.

CREDIT MARKET CONDITIONS AND RELIANCE ON BANK CREDIT LINES

Credit market turmoil is still buffeting the corporate sector, with the effects much worse on companies with poor credit ratings. About 40 percent of companies rated AAA or AA indicate credit market conditions are hurting their firms. Among companies rated B or lower, 77 percent say they have been hurt.

Companies rated B or lower have nearly maxed out credit lines, drawing on average 70 percent of the maximum. AAA and AA rated firms, in contrast, have drawn only 27 percent of the maximum.

"Bank lines of credit are usually a temporary source of funding, or are used as a last resort," said John Graham, a finance professor at Duke and the director of the survey. "In the

current market, many companies have few funding options beyond their credit line. In fact, there has been a bank run of sorts on credit lines, with poorly rated companies drawing funds now, just in case their bank decides not to lend to them in the future. This action has in part crowded out the ability of banks to lend to other firms, exacerbating the lack of credit elsewhere in the system.”

Over the past six months, the amount of external funding provided by bank lines of credit has approximately equaled the total amount provided by other sources of borrowing, such as short-term and long-term debt.

Credit markets remain extremely tight. Among companies that report they have been directly affected by credit market turmoil, nearly 60 percent have had trouble accessing capital, and nearly half report a higher cost of credit (relative to pre-crisis costs).

PRESIDENT OBAMA: NO HONEYMOON WITH CFOs

U.S. CFOs are lukewarm on President Obama’s policy ambitions. Corporate concern about the new administration and Congress ranks as their third biggest external concern. About 32 percent of CFOs indicate they feel the economy has been helped by the economic stimulus actions taken to date, equal to the 32 percent who indicate the economy is worse off. Another one-third feel the stimulus efforts have made no impact. Finally, more than half (53 percent) of CFOs say their companies would be worse off with a national health care system, compared to only 19 percent who say their businesses would be better off.

ADDITIONAL EUROPEAN DATA

Only one in five European CFOs expect their own country’s economy to begin to recover in 2010. Another 37 percent expect the recovery to begin in the first half of 2010. The remaining 43 percent expect economic recovery will not begin until the second half of 2010 or later.

Nearly two-thirds of European companies indicate they will institute a hiring freeze over the next year, and 57 percent will freeze or reduce wages. Almost one-third of companies say they will reduce work hours for remaining employees. More than 60 percent will reduce their workforce, with the average reduction among those firms being 9 percent.

The top three external concerns for Europeans are weak consumer demand, the financial and banking system, and credit markets more generally.

Fifty-eight percent of European CFOs report problems with suppliers, ranging from 40 percent of suppliers being unable to obtain trade credit or bank financing to 21 percent of companies having a supplier go out of business.

ADDITIONAL ASIAN DATA

More than two-thirds of Asian firms plan a hiring freeze for the next 12 months. Sixty-three percent plan a wage freeze or wage reduction. In addition, 30 percent of Asian CFOs say their firms will reduce the hours worked by employees who retain their jobs.

Forty-six percent of Asian CFOs expect their own country’s economy to begin to recover in 2009, and another 29 percent expect the recovery to begin in the first half of 2010.

Fifty-five percent of Asian CFOs report problems with suppliers, with many not receiving enough order volume to be viable. This has led to a consolidation of orders with stronger suppliers at nearly half of Asian firms.

ADDITIONAL CHINESE HIGHLIGHTS

Chinese CFOs say their top concerns about their own companies are working capital management, maintaining the morale and productivity of workers, and attracting and retaining qualified workers. Their top external concerns are weak consumer demand, credit markets and the cost of non-fuel commodities.

Employment and capital spending are expected to decline over the next year.

More than two-thirds of Chinese companies will impose a hiring freeze this year, and 30 percent will reduce wages. One-third will reduce the hours worked by retained employees.

Among Chinese companies with bank lines of credit, the average firm has drawn 56 percent of the maximum allowed.

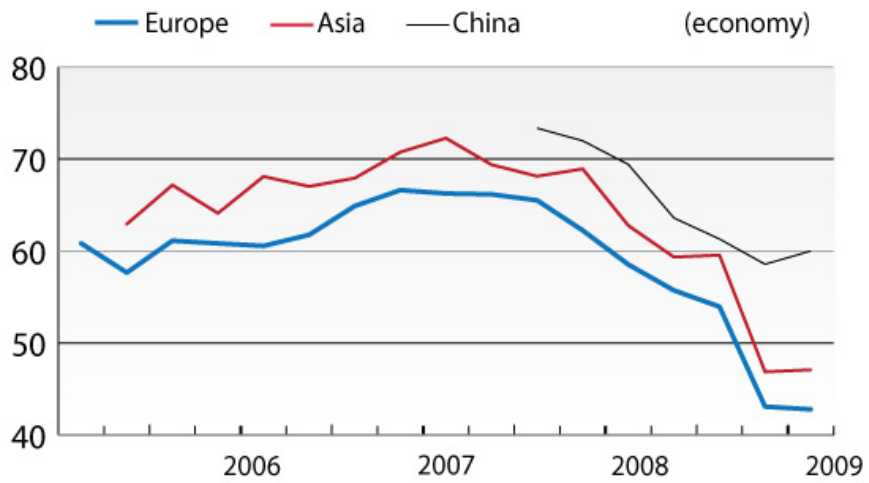
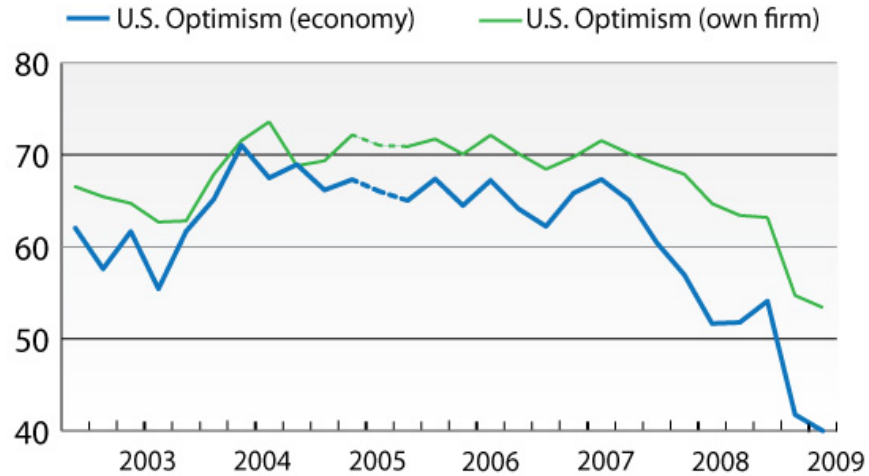
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Detailed results, including tabular summaries of the numbers in this release and results from previous surveys, are available at <<http://www.cfosurvey.org>>.

About the survey: This is the 52nd consecutive quarter that the Duke University/CFO Magazine Global Business Outlook survey has been conducted. The survey concluded Feb. 27, 2009 and generated responses from 1,268 CFOs, including 543 from the U.S., 221 from Europe, 246 from Asia (not including China), and 258 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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