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What About Our Economy?

By **Larry Doyle** Dec 16, 2011, 9:04 AM Author's Website

With many eyes focused on the ongoing demise within the Euro-zone, what about our own economy?

Is that proverbial light around the bend merely another train coming the other way? Or utilizing another railroad analogy, can our economic caboose continue to chug along under the weight and duress of so much excess capacity and baggage?

Well, given the fact that I have limited trust in economic releases from our friends in Washington, let's review a private survey of chief financial officers produced by Duke University:

CFOs: U.S. OUTLOOK IMPROVES THOUGH RECESSION RISK STILL ACUTE

SUMMARY OF FINDINGS FROM DUKE UNIVERSITY / CFO MAGAZINE GLOBAL BUSINESS OUTLOOK SURVEY

>>The outlook among U.S. CFOs has improved this quarter, with stronger hiring and spending plans relative to last quarter. At the same time, U.S. CFOs remain cautious about the future and peg the odds of a recession by mid-2012 at about 1 in 3.

>>The situation in Europe is much worse than last quarter, with no growth expected in spending or hiring. The outlook in Asia has also softened.

>>U.S. finance chiefs plan to expand their workforces by 1.5 percent on average over the next 12 months, a staffing increase that would yield an unemployment rate of approximately 8 percent, down a point from today's 9 percent rate.

>>U.S. CFOs rated their optimism in the nation's economy at 53 this quarter (on a scale from 0 to 100), higher than the recession low of 40 in February 2009, but lower than the long-run average of 60.

>>U.S. profit growth will slow to less than 8 percent, compared to 20 percent one year ago.

>>With the debt crisis continuing to unfold, things are worse in Europe, with optimism down and very little to no growth expected in hiring, business spending or earnings.

>>Asian CFOs are the most optimistic about 2012, but the outlook has dimmed as CFOs' optimism rating declined to 57 from last quarter's 60.

ABOUT THE SURVEY

The Duke University/CFO Magazine Global Business Outlook Survey is done quarterly. In the most recent survey, which concluded Dec. 9, 1,050 CFOs from a broad range of global public and private companies were asked about their expectations for the economy. The research has been conducted for 63 consecutive quarters, making it the world's longest running research on senior finance executives and one of the most comprehensive surveys of its kind.

QUOTES

"The 1.5 percent increase in employment is an improvement from the 1 percent increase that was projected last quarter. With a 1.5 percent increase in workforce, national unemployment should fall to near 8 percent by year-end 2012." - John Graham, professor of finance at Duke's Fuqua School of Business and director of the survey

Perhaps we should remind the professor that the real focus in unemployment is not merely the national unemployment rate **BUT** rather to a **MUCH GREATER EXTENT** the health of our labor market is measured by the participation rate.

How are we doing by that standard? Well, the participation rate of 64% sits at multi-decade lows and is trending lower. More and more people have literally given up looking for work.

"It's encouraging to see this rebound in optimism because increases in CFO optimism have historically preceded improvements in the overall economy. Still, the level of optimism is low by historic measures, suggesting that economic growth will remain relatively slow." – Kate O'Sullivan, deputy editor at CFO Magazine

“Even more worrisome than CFOs’ recession fears is that 46 percent of CFOs have no plan in place to deal with a recession next year if it happens. It seems like they will wing it, which is shocking because the risk is substantial at 31 percent as opposed to just a couple of percentage points.” - Campbell Harvey, a Fuqua finance professor and founding director of the survey.

What is my take on this survey and our economy as a whole? I continue to believe our economy has a severe case of ‘walking pneumonia’. We have continued to borrow against future growth via the financial charades played by our central bankers and policy makers. The structural changes ongoing in our economy will take many years to play themselves out.

Our economic locomotive is working exceptionally hard to get up the hill but the deleveraging process and accompanying deflationary dynamic within our global economy continue and those simple realities are not changing anytime soon.

We remain in the midst of a long, cold, slow economic slog.

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