Pessimism Is Growing in Executive Suites

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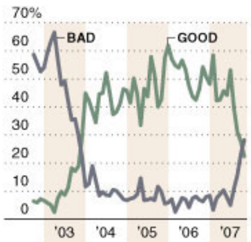
The chiefs are getting worried.

Worry at the Top

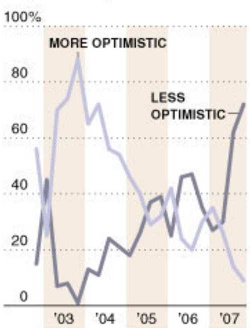
Surveys of chief executives and chief financial officers show growing worry about the economy.

Chief executives were asked to rate current business conditions in the United States:*



*Those who said that conditions are normal are not shown.

Chief financial officers were asked if they were more or less optimistic about the U.S. economy than they had been in the previous quarter:



Sources: Chief Executive Magazine; Duke University/CFO Magazine

THE NEW YORK TIMES

Surveys of corporate chief executives and chief financial officers released yesterday showed sharp declines in optimism about the economy and business conditions, providing more evidence that the economy is slowing.

Just 9 percent of chief financial officers said they were more optimistic about the economy in December than they had been three months earlier, a record low. "We've never seen anything like that," said John R. Graham, a finance professor at Duke University, which conducted the survey with CFO Magazine. "C.F.O. optimism is spiraling downward."

The monthly survey of chief executives found that 41 percent expected employment in the economy would decrease over the next three months, by far the largest such figure since the survey began in late 2002. Only 16 percent forecast an improvement in employment, with the rest expecting no change. As recently as July, only 12 percent forecast the employment situation would worsen.

"C.E.O.'s have been clear over the past several months that they are worried about the economic climate," said Edward M. Kopko, the publisher of Chief Executive magazine, which conducted the survey of 533 chief executives who subscribe to the magazine. "The recent dramatic drop in confidence may suggest that the worst is yet to come."

Overall, the C.E.O. confidence index fell for the fourth consecutive month, and was the lowest since May 2003.

The sharp trend toward pessimism appears to have affected smaller companies more than larger ones, and to have the strongest impact at companies with the least-solid balance sheets. Mr. Graham said that a third of the 573 American C.F.O.'s said their companies had been hurt by the credit crisis, but that half of those with credit ratings of BBB, the lowest investment grade rating, or lower, said their companies had been hurt.

The surveys were released a day after a more upbeat survey of 105 chief executives who

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are members of the Business Roundtable, a group of large American companies. That survey showed a small increase in confidence from the previous quarter, with 33 percent saying they expected their companies to increase hiring in this country in the next six months, while 22 percent expected to cut employment.

The pessimism seems to be less pronounced for executives' own companies. Among the financial officers, 34.3 percent said they were more optimistic about their own companies than they had been three months earlier. But that was the lowest positive response to that question since it was first asked in 2002, and 36.6 percent said they had become more pessimistic.

Among chief executives, slightly more said their companies were reducing capital spending than said they planned increases. But the C.F.O. survey showed an average increase of 4.1 percent planned for capital spending, higher than the 3.2 percent planned three months earlier.

The financial officer survey asked, for the first time, if companies had experienced "an increase in the number of employees taking loans or making hardship withdrawals from their 401(k) accounts?" A total of 18.5 percent said they had, with the most-cited reason being the need to make mortgage payments.

The credit crisis, which began in the subprime mortgage market, has spread to the leveraged loan market, which is a source of financing for many companies that lack investment-grade credit ratings.

"The Fed has considerable interest in measuring the potential impact of the credit crisis on the overall economy," said Campbell R. Harvey, a Duke professor who founded the C.F.O. survey, "and our survey provides the first direct evidence of the credit fallout."

He said that of the firms that said they had been affected by the credit problems, "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."

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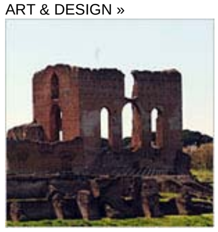

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