CFOs: Economic recovery still a year away

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Corporate chief financial officers do not expect the U.S. economy to begin to recover until at least 2009, according to the latest Duke University/CFO Magazine Global Business Outlook survey.

The quarterly survey, which has been conducted for more than 12 years, asked more than 1,000 CFOs from a broad range of global public and private companies about their expectations for the economy. They also expect domestic employment to fall and inflation to boost prices by 4.1 percent.

"This could be the longest slowdown since the double-dip recession of 1979-81," John R. Graham, director of the survey and a finance professor at Duke's Fuqua School of Business, said in a statement. "Our survey indicates that CFO optimism is bottoming out near record lows. Even more worrisome, there is evidence of stagflation – slow economic growth and rising unemployment combined with inflation."

Almost three-fourths of the CFOs surveyed said the economy wouldn't begin to rebound until next year, with 54 percent saying the rebound will not occur until mid-2009 or later. More than half of the CFOs are more pessimistic about the U.S. economy this quarter than they were earlier this year, while 21 percent are more optimistic.

High fuel costs and weak consumer demand are the top concerns among CFOs. Credit markets and difficulty in attracting and retaining high-quality employees are also significant worries.

"In recent years, U.S. companies have largely shrugged off increasing fuel costs," Kate O'Sullivan, senior writer at CFO Magazine, said. "This quarter, for the first time in the history of our survey, fuel costs are tied as the top corporate concern. Significantly, also for the first time, a majority of companies tell us they have taken explicit actions in response to increased fuel costs."

Nearly half of the companies surveyed are passing along higher fuel and non-fuel input costs to customers in the form of higher prices. This will exacerbate inflationary pressures, with prices expected to increase by 4.1 percent.

Six out of 10 CFOs said their firms have taken steps to reduce the impact of rising fuel costs. In addition to raising prices, companies have slashed business travel, improved facility management, shifted to more efficient shipping methods, reduced profit margins and increased the use of financial derivatives to hedge high fuel costs, according to the survey.

"Rising fuel costs are seeping into the overall price level, contributing to inflationary expectations of over 4 percent," O'Sullivan said.

Domestic employment is expected to fall 0.2 percent over the next 12 months, while capital spending is expected to increase 2.3 percent, according to the survey. Capital spending plans have been scaled back for the third consecutive quarter, CFOs said.

With nearly 40 percent of the surveyed firms delaying, reducing or canceling new investment plans, economic growth will be limited.

Still Duke professor Campbell R. Harvey, the founding director of the CFO survey, found reasons to be optimistic.

“For the last several quarters, CFOs reported bad news and more bad news. This quarter, we’re seeing bad news with a little bit of good news,” Harvey said in a statement. “In the fourth quarter of 2007 and the first quarter of 2008, pessimists outnumbered optimists by an 8-to-1 margin. This quarter, the ratio has improved to roughly 3-to-1, potentially indicating stabilization.”