Financial execs project recession through 2009

Posted: Jun. 3, 2009

The worldwide recession will continue for the rest of 2009, with substantial cuts planned in employment and capital spending, according to chief financial officers in the U.S., Asia and Europe.

Those polled in the latest Duke University/CFO Magazine Global Business Outlook Survey said they are more optimistic about the longer-term economic outlook.

The survey, which concluded last Friday, asked 1,309 CFOs from a range of public and private companies worldwide about their expectations for the economy. The research has been conducted for 53 consecutive quarters.

Employment is expected to fall in both the U.S. and Europe by about 5.5 percent, and the U.S. unemployment rate could reach double digits, according to the survey. In Asia, employment is expected to drop 1.4 percent over the next year.

CFOs said they expect capital spending will decline by more than 10 percent in the U.S. and Europe and by 3 percent in Asia. Many companies face severe credit constraints, they said, although conditions have stabilized at companies with strong credit ratings.

“The rest of 2009 will remain challenging, but 2010 looks better for the U.S. and Asia,” Kate O’Sullivan, senior writer at CFO Magazine, said in a statement. “The weak European outlook could dampen the recovery in the rest of the world. To put it in context, the U.S. rating of 52 is still well below the long-term average of 61, but it is heading in the right direction.

"Given the strong record of the CFO optimism index as a leading indicator, we can expect the U.S. economy to begin to recover by early 2010. But the CFO outlook for the rest of 2009 is fairly dismal,” O'Sullivan said.

Optimism among CFOs is rising from its recent all-time lows, with 54 percent of U.S. and 63 percent of Asian CFOs more optimistic than they were last quarter. Only 30 percent of European CFOs are more optimistic, and 31 percent are less optimistic.

“Our survey carries an important message: Don’t put too much weight on the ‘soft’ data like consumer confidence. Recovery requires sustained confidence, and such confidence is forged by stronger economic fundamentals,” Campbell Harvey, founding director of the survey and international business professor at Duke’s Fuqua School of Business, said in a statement. “The economic fundamentals –- employment, capital spending, the cost of credit –- are still fundamentally troubling.”

One example of underlying weakness is the surveyed companies’ employment plans, Harvey said. Employment in the U.S. is projected to decrease over the next 12 months, which could drive the overall unemployment rate into the 11 to 12 percent range.

“Presumably, government programs will offset some of these losses, but even the most optimistic government forecasts would reduce the losses by only 2 million," he said. "We’re facing the possibility of another 4 million lost jobs."

CFOs said they expect earnings to fall at public U.S. companies by 4 percent over the next 12 months, down from expected earnings growth of 3 percent a year ago. Capital spending is expected to decline by more than 10 percent in Europe and the U.S. and by about 3 percent in Asia.

Tech spending and research and development will fare somewhat better, declining slightly in the U.S. and Europe, and increasing slightly in Asia, according to the survey.

“There is a dramatic split between haves and have-nots in the credit market,” John Graham, a finance professor at The Fuqua School of Business and the director of the survey, said in a statement. “Companies that have remained profitable and retained high credit ratings are generally able to obtain new credit. In contrast, the companies that really need credit, because they are experiencing losses or have seen their cash reserves shrink, find worsening credit conditions.

“The big concern is we might hear the other shoe dropping, with the liquidity crisis that is strangling these companies creating substantial risk for the world economy,” Graham said.

Concerns about weak consumer demand and credit markets remain the top two external concerns for U.S. CFOs. They are also concerned about the policies of the federal government.

The top internal concerns are the inability to plan due to heightened economic uncertainty, working capital management and liquidity, and maintaining employee morale.