No economic recovery until 2010, most corporate finance officers say

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Most chief financial officers believe the global recession won’t end until well into 2010, according to a new survey from Duke University and CFO Magazine.

In fact, CFOs in the U.S. rate the economy at a record low – 40 points on a 100-point scale. CFOs in Europe and Asia have only slightly higher opinions at 43 and 47 respectively.

Reflecting those dim views, most companies expect to make “dramatic” cuts in both employees and capital spending this year, the CFOs said in the quarterly “Global Business Outlook Survey.”

The Duke-CFO survey is similar to a recent survey from UNC-Chapel Hill’s Kenan-Flagler Business School and the American Institute of Certified Public Accountants in Durham. Forty-one percent of those financial experts surveyed said they don’t expect a recovery to begin until the first half of next year. Another 20 percent say a rebound will start in the second half of next year.

As a result of the poor economy, U.S. CFOs in the Duke-CFO survey project a 5.6 percent reduction in company payrolls. Job losses in Europe are expected to be worse at 7.6 percent. In Asia, the forecast is better but even there CFOs see a 3.2 percent jobs cut.

Driving CFO concerns are weak consumer demand, continuing challenges in global credit markets and maintaining employee morale as well as productivity.

“Even with the stimulus plan, CFOs expect to lay off nearly 6 percent of their workforces,” said Fuqua Business School finance professor Campbell Harvey. “This represents a staggering 7.6 million job losses.

“And it gets worse,” he added. “In addition to the layoffs, many CFOs plan wage freezes and reductions in the number of hours worked for those employees that are retained.”

According to the CFOs, nearly 60 percent of companies in the U.S. will institute hiring freezes. More than half of the CFOs said their companies would impose wage freezes or reductions.

Twenty percent expect wages to be cut.

Thirty-nine percent plan to reduce employee work hours.
Not many of the CFOs expect the recently passed U.S. stimulus package to have a positive impact on their firms. They also are worried about legislative initiatives planned by the Obama Administration and in the Congress about health care as well as other issues.

“This is very troubling,” said Kate O’Sullivan, senior writer at CFO Magazine, about the survey results. “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.”

CFOs project a 13 percent drop in U.S. capital spending, a 16 percent retreat in Europe and a 9 percent fall in Asia.

Tech spending is also expected to be hurt with a 6 percent reduction in all regions.

In the U.S., 35 percent of CFOs believe the economic recovery will begin this year. The majority expect the recovery to begin in 14 months. Asian CFOs see recovery in 13 months. Their colleagues in Europe don’t expect a rebound for 16 months.

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The survey has been conducted for 52 consecutive quarters.

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