Credit market dismays CFOs

Optimism hits lowest level since 1st quarter of 2009

By Monica Chen

mchen@heraldsun.com; 419-6636

DURHAM -- Optimism among chief financial officers has fallen to its lowest level since the first quarter of 2009 as a result of continuing problems with the credit market, according to Duke University's most recent quarterly survey of CFOs.

The survey, which concluded Friday, was conducted with CFO Magazine and questioned 937 CFOs from public and private companies worldwide on their expectations for the economy.

In the U.S., CFO optimism fell from 58 on a zero-to-100 scale last quarter to 49 this quarter, the lowest level since first quarter 2009, when CFO optimism sank to 40.

Credit is tight for small firms and many firms continue to hoard cash, the survey concluded. Half of CFOs say they will cling tightly to cash due to economic uncertainty and as a liquidity buffer. The other half will spend some cash reserves in the next year, primarily for investment, to pay down debt and to make acquisitions.

Compared to a year ago, 30 percent of companies say borrowing has become more difficult, compared to 25 percent who say borrowing is easier.

U.S. CFOs say nearly one-fourth of recent hiring has been for contract and part-time employees, up from 17 percent prior to the recession.

Campbell Harvey, professor of finance at Duke University's Fuqua School of Business and a founding director of the survey, said the credit problem is a contributor to the decrease in optimism among CFOs, along with general economic uncertainty and the sense from news media that the country is stuck in a recession-like state.

"Credit is definitely part of it," he said. "There's been no improvement over the last year."

As of Aug. 31, there were 829 banks on the U.S. Federal Deposit Insurance Corporation's Bank Watchlist. Those are banks that are too unhealthy to provide credit.

As for the numbers of healthy banks nationwide, Harvey said they are reluctant to lend money because of a combination of factors.
"They're getting paid for the excess reserves," Harvey said. "They're figuring the best way to make money is to buy the government debt. It's safe, and interest rates are so low that they can borrow at a very cheap rate and then just buy U.S. treasury bonds."

Harvey also noted that since small and medium-sized businesses usually account for the majority of employment growth, the fact that those businesses have not been able to get financing to fund their growth implies that unemployment will be stuck at 9 or 10 percent.

"Cash exists in two locations: bank reserves and balance sheets of healthy companies," he said. "Banks show no sign of unfreezing credit. They are lending to the government, not to businesses. However, U.S. firms are sitting on over $1.8 trillion in cash. When will it be unleashed?"

According to the survey, 50 percent of CFOs have no intention of deploying their cash in the next year. More than half said they will continue to sit on cash for liquidity to protect against another round of credit tightening and general economic uncertainty.

Of the 50 percent that will deploy cash, according to the survey, just 56 percent will use the money for capital spending and investment.

© heraldsun.com 2010