CFOs' mood 'very negative': Duke survey projects stagnant employment through 2010

Thursday, June 10, 2010 3:59 PM

(Source: The Herald-Sun) By Monica Chen, The Herald-Sun, Durham, N.C.

Jun. 10--DURHAM -- Employment nationwide is projected to remain stagnant for 2010, according to Duke University's most recent survey of chief financial officers worldwide, mostly because of difficulties small to medium-sized businesses have in obtaining financing.

Instability in the global financial markets and foreclosures in the U.S. have led to a risky environment for consumers and companies alike.

"The mood is very negative right now," said Campbell Harvey, a professor of finance at The Fuqua School of Business and founding director of the survey.

In Duke's survey of 1,102 CFOs during the second quarter, American CFOs said they have limited plans to hire during the next 12 months, with nearly 60 percent saying they don't expect staffing at their companies to return to pre-recession levels until 2012 or later.

Among companies that cut positions in the past several years, fewer than half said that during the next year they will restore bonuses, overtime, employee training and development, retirement benefits or health benefits to pre-recession levels. About half will restore wages and weekly work hours.

"U.S. companies plan very little domestic hiring over the next year," said John Graham, professor of finance at Fuqua and director of the survey. "However, the rate of improvement is slow and should put only a small dent in the unemployment rate by year-end."

Full-time domestic employment in the U.S. will increase by 0.7 percent and temporary hiring is expected to drop by 0.2 percent. The overall expected employment growth is barely enough to keep pace with population growth, according to Harvey.

At the root of the slow employment growth: unavailable credit, particularly for small- to medium-sized businesses.

One-third of small businesses reported in the second quarter that borrowing conditions are worse now than in 2009, according to Harvey. Among small businesses, 44 percent restricted capital spending...
below desired levels because of borrowing difficulties, Harvey said. Borrowing conditions remain tight, with about half of the firms reporting that credit conditions have tightened and half saying credit has eased.

One third of small businesses, or those with 100 or fewer employees, say credit conditions have worsened in the past six months.

Banks remain conservative and are reluctant to lend because of continued foreclosures and the specter of future defaults, Harvey said. Meanwhile, increases in public programs to help small businesses have not been enough to generate the capital projects investments that are needed for long-term growth.

"These capital projects create jobs both today and over the longer term," Harvey said. "The continued credit problem makes it inevitable that we will see very high levels of unemployment not just in 2010, but well beyond."

However, CFOs are expecting earnings to increase by 12 percent. Capital spending is expected to grow by 9 percent and research and development and technology spending by 4 to 6 percent.

Not surprisingly, the CFOs cite low employee morale as among their top concerns about their own companies. Economy-wide concerns include weak consumer demand, federal government policies, price pressure and global financial instability, eyeing financial problems in Europe and competition from Asia.

The report states the employment picture in Europe remains bleak. In the next 12 months, European CFOs expect to cut domestic full-time workers by 1.6 percent and part-time workers by 4.5 percent.

And while the U.S. and European firms struggle with credit, Asian CFOs reported they expect capital spending to increase by nearly 12 percent, and say earnings will climb by just over 10 percent. Domestic employment will rise by more than 5 percent in Asian countries, with top concerns focusing on price pressure, weak consumer demand, global financial market instability and currency risk.

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