CFO Survey: Wage Trend Tilts Upward

12/15/2010 By Stephen Miller

Chief financial officers are becoming more optimistic about the economic outlook for 2011, raising expectations for continued growth in capital spending and earnings and for improved job growth. Wages in 2011 are expected to rise 2.5 percent in the U.S.

But concerns about the consumer sector and continued price pressure still limit the extent of economic recovery that CFOs expect to see.

These are some of the findings of the Duke University/CFO Magazine Global Business Outlook Survey, which concluded Dec. 10, 2010. The survey asked 848 CFOs from a broad range of global public and private companies about their expectations for the economy.

Employment and Wages

U.S. firms expect to increase full-time workforce by 2 percent in 2011, the study found. This would be the largest planned hiring increase since early 2006. Hiring will be particularly strong in the tech and service/consulting industries. Employment is expected to rise by about 5 percent in Asia, but only 0.2 percent in Europe.

"The U.S. employment picture is improving," said John Graham, professor of finance at Duke's Fuqua School of Business and director of the survey. "At a normal rate of labor force growth, employment expansion of 2 percent should reduce unemployment below 9 percent by the end of 2011. At the same time, the U.S. is still sending jobs overseas, with an expected 5 percent increase in outsourced jobs in 2011."

Wages are expected to rise 2.5 percent in the U.S., 2.2 percent in Europe, and about 7 percent in Asia.

Top Concerns

Top concerns for U.S. CFOs include weak consumer demand, the federal government's agenda, and intense price pressure. The cost of health care and the difficulty of attracting skilled employees are among the top company-specific concerns.

The inability to plan for the future due to extreme uncertainty about the pace of economic improvement also concerns U.S. executives. Finance chiefs said the midterm elections did not significantly resolve their uncertainty about government policies and the election results won't make it easier to plan for the future.

Credit Conditions

U.S. credit market conditions have improved somewhat this quarter. Thirty-six percent of CFOs say borrowing is easier now compared to one year ago, compared to 21 percent reporting tighter credit. Among the smallest firms (fewer than 100 employees), credit remains tight. One-third of these smallest companies say credit is tighter now relative to conditions one year ago, compared to one-fifth who say credit conditions have improved.

"In a typical recovery, most job growth comes from small firms," said Campbell R. Harvey, a professor of finance at Fuqua and founding director of the survey. "Therefore, the difficulty in borrowing by small companies will continue to shackle economic growth and job creation going forward."

Companies around the world say low interest rates have encouraged them to borrow slightly more. The borrowing mix has changed notably, with companies shifting toward long-term, fixed-rate borrowing to lock in low long-term rates. One exception is China, where half of all firms say borrowing has become more difficult, as the Chinese central bank attempts to slow economic growth and dampen potential inflationary pressures.

Cash Hoarding

U.S. non-financial firms are sitting on $1.93 trillion in cash. The ratio of cash to assets is the highest it has been since 1959, and many respondents are loath to part with much, if any, of their cash storages.

"Fifty percent of surveyed CFOs have no intention of putting their excess cash to work," Harvey said.

CFOs say they plan to continue to hold cash because: 1) continued credit market uncertainty; 2) persistent economic uncertainty in general; and 3) few investment opportunities. Of those companies planning to draw down their cash reserves, two-thirds would focus on capital investment while only 15 percent said they would use the cash to increase hiring.

Stephen Miller, *CEBS, is an online editor/manager for SHRM*.

Related Articles:

2011 Base Salary Increases See Modest Rise, *SHRM Online* Compensation Discipline, January 2011

2011 Compensation Budgets Stabilizing, *SHRM Online* Compensation Discipline, December 2010

Quick Links:

SHRM Online **Compensation Discipline**

SHRM **Salary Survey Directory**

SHRM **Compensation Data Center**

SHRM **Metro Economic Outlook reports**

- Sign up for SHRM's free **Compensation & Benefits e-newsletter**

Society for Human Resource Management

1800 Duke Street
Alexandria, Virginia
22314 USA

Phone US Only: (800) 283-SHRM
Phone International: +1 (703) 548-3440

TTY/TDD (703) 548-6999
Fax (703) 535-6490

Questions? Contact SHRM
Careers Careers @ SHRM