Global CFO Survey reveals optimism about Business Outlook for 2011

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Company News

Campbell R. Harvey, Professor of Finance at Fuqua

A survey of Chief Financial Officers (CFOs) from a broad range of global public and private companies has shown planned increases in spending and employment as a result of optimistic outlook for 2011. The CFO survey conducted quarterly by Duke University's Fuqua School of Business, in collaboration with CFO Magazine and Tilburg University in the Netherlands, provides useful insights into global business trends.

According the survey findings, CFOs in the U.S. are more optimistic about the economic outlook for 2011, raising expectations for continued growth in capital spending, earnings and improved job growth. Optimism in Asia (not including China) is also strong and while China is more restrained, it looks more optimistic than Europe which trails the rest of the world.

"The current level of optimism has increased notably from last quarter," said Kate O'Sullivan, senior editor at CFO Magazine. "U.S. optimism still trails Asia, but this quarter surpasses Europe. Finance chiefs are acting on this improved outlook by boosting their budgets."

U.S. firms expect to increase full-time workforce by 2 per cent in 2011, 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 per cent in Asia, but only 0.2 per cent in Europe. Wages are expected to rise 2.5 per cent in the U.S., 2.2 per cent in Europe, and about 7 per cent in Asia.

"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 per cent should reduce unemployment below 9 per cent by the end of 2011. At the same time, the U.S. is still sending jobs overseas, with an expected 5 per cent increase in outsourced jobs in 2011."

About two-thirds of European CFOs believe that the euro is threatened by the economic challenges of Ireland, although they agree that the country is in a better financial position than Greece was last year. In terms expectations on exchanges rates, thirty per cent of European CFOs believe their primary currency will depreciate relative to the U.S. dollar, with an average decline of 9 per cent.

848 CFOs from global private and public entities responded to the survey, which concluded December 2010. The research has been conducted for 59 consecutive quarters, making it one of the world's largest and longest-running surveys of senior finance executives. (See end of release for survey methodology.)

Summary of Findings

Half of CFOs are more optimistic about the U.S. economy this quarter, compared to 14 per cent who are less optimistic, representing a marked improvement from the previous quarter.

CFOs expect to boost company earnings (20 per cent increase expected in 2011) and increase capital spending (9 per cent), tech spending (5 per cent), hiring (2 per cent), and dividends and share buybacks (3 per cent)

Overall, 36 per cent of companies find borrowing conditions have improved compared to third quarter of 2009. The smallest firms (100 or fewer employees) say credit is still tight.

Companies will continue to accumulate cash in 2011 (6 per cent growth), although some plan to use cash for capital spending.

The economic recovery is still hindered by concerns about consumer demand, pressure on profit margins, and the difficulty in planning during uncertain economic times.

Optimism, Earnings, Capital Spending, Cash

Half of U.S. CFOs say their optimism has increased this quarter.

Earnings are expected to rise nearly 20 per cent in the U.S., greater than the 14 per cent jump expected in Europe and 10 per cent in Asia.

U.S. finance chiefs expect to step up their capital spending by 9 per cent in 2011, research and development by 4 per cent, and advertising by 2 per cent.

Half of U.S. companies say they will begin to spend accumulated cash, with two-thirds of these firms using the cash to increase capital spending and one-third saying it will go toward acquisitions.

Credit Conditions

U.S. credit market conditions have improved somewhat this quarter. Thirty-six per cent of CFOs say borrowing is easier now compared to one year ago, compared to 21 per cent 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.

Hoarding Cash

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 per cent 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 per cent said they would use the cash to increase hiring.

Exports

Exports are expected to increase from about 19 per cent of U.S. sales currently to about 28 per cent. The biggest growth will come from companies that currently export between 20 and 39 per cent of sales -- these firms plan to double the export share of sales over their planning horizons.

Fifty-four per cent of U.S. companies say protectionist governmental policies would hurt their firms.

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.

More than half of U.S. firms say they would be hurt by protectionist economic policies.

Additional Asian Results

Optimism in Asia (not including China) is strong, with 72 per cent of CFOs being more optimistic and 10 per cent more pessimistic. The outlook is more restrained in China, with optimists outnumbering pessimists 40 per cent to 22 per cent.

The top internal concern among Asian CFOs is difficulty in attracting and retaining qualified employees, with employee morale and difficulty in planning following close behind. Supply chain risk is the No. 4 concern among Chinese companies.

Full-time domestic employment is expected to increase by about 5 per cent in Asia in 2011 and capital spending will rise by more than 10 per cent. Seventy per cent of Asian companies will begin to deploy accumulated cash in 2011, with 71 per cent making capital expenditures and 32 per cent spending on mergers and acquisitions.

Sixty-eight per cent of Asian CFOs believe their country's currency will depreciate relative to the U.S. dollar (helping U.S. exports), with an average depreciation of 7 per cent.

Additional European Results

European optimism trails the rest of the world, with 38 per cent of CFOs being more optimistic and 27 per cent more pessimistic.

Nearly two-thirds of European CFOs believe that Ireland poses a threat to the euro, although they also say Ireland is in a better financial position than Greece was last year.

The list of internal European concerns is topped by difficulty in attracting skilled employees, difficulty in planning due to economic uncertainty, employee morale, and corporate liquidity.

Full-time domestic employment will increase by only 0.2 per cent, while outsourced employment will increase 6 per cent.

European firms plan to generate about half of their sales outside of their own countries, with about 40 per cent originating outside of Europe.

Thirty per cent of European CFOs believe their primary currency will depreciate relative to the U.S. dollar, with an average decline of 9 per cent.

Detailed results, including tabular summaries of the numbers in this release and results from previous surveys are available at: http://www.cfosurvey.org.

Read more http://www1.albawaba.com/global-cfo-survey-reveals-optimism-about-business-outlook-2011