PHYSORG.COM SCIENCE : PHYSICS : TECH : NANO : NEWS

CFOs: Hiring and spending plans weaken, fed policy viewed as ineffective

September 12th, 2012 in Other Sciences / Economics & Business

U.S. CFOs are growing more pessimistic about the American economy, with hiring and spending plans significantly weakening since last quarter. Finance chiefs say that their business spending plans are not sensitive to moderate changes in interest rates, suggesting that there is little that the Federal Reserve can do to stimulate investment at this time. In addition, CFO concerns about Europe also have increased in the past three months.

These findings are included in the most recent Duke University/CFO Magazine Global Business Outlook survey, which concluded Sept. 7. The survey asked nearly 1,500 CFOs from a broad range of public and private companies about their expectations for the economy.

The survey has been conducted for 66 consecutive quarters, and spans the U.S., Asia, Europe and Latin America, making it the world's longest-running and most comprehensive poll of senior finance executives. Presented results are for U.S. firms unless otherwise noted.

SUMMARY OF FINDINGS

U.S. finance chiefs say that interest rate reductions of 1 or 2 percentage points would not alter their capital spending plans, indicating that potential monetary policy actions by the Federal Reserve are unlikely to spur the corporate sector to action.

The Optimism Index for CFOs in the U.S., Asia, Latin America and Europe all dropped this quarter compared to last quarter.—CFOs plan to increase hiring by 1.5 percent, capital spending by 3.7 percent and earnings by 6 percent, all down from last quarter.

FED POLICY

The Federal Reserve's attempts to reduce interest rates will have little impact on corporate investment, say CFOs. Ninety-one percent of firms say their spending plans would not change if interest rates were to fall by 1 percentage point. Eighty-four percent say a 2 percent rate reduction would not affect their spending plans.

"This is stark evidence that QE3 would be a wasted effort," said Campbell Harvey, a finance professor at Duke's Fuqua School of Business and founding director of the survey. "The CFOs are saying that it is naïve for the Fed to think that dropping interest rates will spur investment in current economic conditions. I certainly hope the Fed gets the message for their Sept. 13 meeting."

Harvey called it "amazing that all the focus is on interest rates when they are already at 50-year lows. We also asked about the impact of increased borrowing costs. Nearly 94 percent of CFOs would make no change in their investment plans if borrowing rates jumped up by 1 percent.

"The survey's bottom line is that the Fed has run out of bullets. The best thing they can do is to foster stability. Anticipating a QE3 or QE4 or some other unconventional policy introduces uncertainty which reduces the chances that firms make capital expenditures," Harvey added.

The CFOs noted that an overall weak global economy has reduced the need for many firms to invest. Among companies that plan to invest, many self-fund their investment out of cash stockpiles. Even among those firms that need to borrow in order to invest, many say interest rates are already so low that further reductions will not alter their business spending.

INCREASED PESSIMISM AND TOP CONCERNS

Forty-four percent of U.S. CFOs say that have become more pessimistic about the economy, twice as many as the 22 percent that say they have become more optimistic. The Optimism Index decreased to 52 (on a scale from 0 to 100), down from 56 last quarter and 59 in the spring.

"The drop in optimism is worrisome for the U.S. because historically it foretells slower economic activity over the next year," said Kate O'Sullivan, editorial director at CFO Magazine. "Optimism is also falling in Asia and Europe."

U.S. businesses list a number of concerns that have reduced their optimism, including the ability to maintain profit margins, the cost of health care, difficulty in attracting and retaining qualified employees, and maintaining employee morale. The list of external concerns is topped by weak demand for products, federal government policies, intense price pressure and competition, and global economic instability.

"CFOs have become increasingly worried about Europe," O'Sullivan said. "Half of CFOs report that the economic climate in Europe is negatively affecting their firms, and 63 percent say that their firm would be negatively impacted if the Eurozone were to unravel."

HIRING, SPENDING, EARNINGS, CAUSES OF SLOW GROWTH

Corporate plans for earnings, spending and hiring all softened this quarter. Earnings for public U.S. firms are expected to increase 6 percent over the next year.

CFOs say they plan to increase capital spending by just 3.7 percent over the coming 12 months, down from 4.9 percent last quarter and 7.3 percent in the spring.

Hiring is expected to increase by 1.5 percent in the next year, down from greater than 2 percent growth reported in the last two surveys.

"The weak business spending plans are troubling because this had been one of the strengths within an overall weak recovery," said John Graham, a professor of finance at Fuqua and director of the survey. "Employment growth has also slowed, with a 1.5 percent growth rate suggesting only modest improvement in the unemployment rate."

"Three out of four companies said that they are delaying or being extremely cautious about hiring and capital spending," added Graham. "More than half of responding CFOs listed weak demand for their products, high unemployment, budget deficits and concerns about the presidential election as factors for cautious hiring and spending. CFOs are also concerned about potential changes to tax policy, the regulatory environment and global economic turmoil, which have caused their firms to pull back."

ADDITIONAL EUROPEAN RESULTS

European optimism is down sharply, with 46 percent of CFOs becoming more pessimistic than they were last quarter. This is more than double the 19 percent who have become more optimistic.

Layoffs should continue in Europe, with full-time employment expected to shrink by 2.6 percent and temporary employment by more than 4 percent. Capital spending is expected to be slashed by nearly 5 percent.

Fifty-six percent of European CFOs believe there is a reasonable chance that Greece will exit the Eurozone. Among this group, they assign on average a 50 percent chance that Greece will exit, and three-fourths of this group believe this exit will occur within the next 12 months. By comparison, only 10 percent of all European CFOs believe Spain will exit the Eurozone.
Top concerns for European CFOs include weak demand, economy-wide financial instability, budget deficits, maintaining employee morale, liquidity concerns and tumultuous credit markets.

ADDITIONAL ASIAN RESULTS

Among Asian CFOs, 47 percent are more pessimistic than they were last quarter and 33 percent are more optimistic. The drop is most noticable in China, where 64 percent of CFOs have become more pessimistic over the past three months.

Even with this growing pessimism, Asian CFOs are still more optimistic than their counterparts in the U.S. and Europe. Asian finance chiefs rank their optimism at 60 (on a scale from 0 to 100), higher than the 52 reported in the U.S. and 49 reported in Europe. Latin American CFOs also rank their optimism at 60.

Asian firms are concerned about weak consumer demand, intense price pressure, global financial instability, liquidity, government policy, and maintaining employee productivity and morale.

Wages are expected to rise 7.2 percent in Asia over the next 12 months, while full-time domestic employment should increase by 3.2 percent. Asian CFOs expect capital spending will grow by 7.5 percent, and earnings will rise by about 5 percent.

ADDITIONAL LATIN AMERICAN RESULTS

Additional Latin American results will be released on www.cfosurvey.org on Friday Sept. 14.

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

Provided by Duke University

"CFOs: Hiring and spending plans weaken, fed policy viewed as ineffective." September 12th, 2012.
http://phys.org/news/2012-09-cfos-hiring-weaken-fed-policy.html