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US CFOs Fret Over Strong Dollar, European CFOs Want Reform (/CFO/index.php/corporate-governance/276-cfo-and-us-dollar-453454)

Details

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Category: Corporate Governance (/CFO/index.php/corporate-governance)

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The latest Duke University/CFO Magazine Global Business Outlook Survey also explores merger and acquisition plans, top corporate concerns, the boon created by low oil prices and low interest rates, and the drag in the U.S. from an appreciating dollar.

The survey, which ended March 6, has been conducted for 76 consecutive quarters and spans the globe, making it the world's longest-running and most comprehensive research on senior finance executives. Presented results are for U.S. firms unless otherwise noted.

Wage Pressures

About 70 percent of U.S. companies indicate that wages are starting to outpace inflation. Wage growth should be at least 3 percent in tech, services and consulting, manufacturing and health care.

"The U.S. is finally entering a new phase in the economic recovery," said John Graham, a finance professor at Duke's Fuqua School of Business and director of the survey. "The first few years of recovery were 'jobless' and, even as job growth picked up over the past year, wages remained stagnant. Finally, we are starting to see wage growth for employees that outstrips inflation. Given that CFOs expect continued strong employment growth, it is surprising that wage pressures are not even greater."

Wage growth will remain subdued at about one-third of companies that indicate employee pay will not outpace inflation. In particular, employees in retail/wholesale, transportation/energy and communications/media should expect pay hikes of less than 2 percent.

The primary reasons are weak company financial performance, intense product market competition that keeps a lid on wages, and minimal labor market pressure in these industries.

US Dollar Continues to Strengthen

Over the past six months the U.S. dollar has appreciated against most major currencies.

(<https://www.poundsterlinglive.com/usd/1912-gbpusd-predictions-markets-underestimated-the-dollars-power>)

The strong dollar has hurt exporters, with approximately two-thirds of firms with at least one-fourth of their total sales overseas noting a negative impact.

Nearly one-fourth of these big exporters say they have reduced capital spending plans due to the strong U.S. dollar.

"We are in a midst of an ugly contest to see whether the Eurozone, Japan or Canada can depreciate the most against the U.S. dollar, and China is probably next," said Fuqua professor Campbell R. Harvey, a founding director of the survey. "U.S. exporters are being punished by these competitive depreciations and this will lead to lower profits and less employment."

Oil prices have fallen dramatically and interest rates are at historic lows in many countries.

Low oil prices have benefited all industries except the energy industry and its suppliers. Low interest rates have also helped most industries, though the impact has been a net negative in banking and finance.

European CFOs Less Optimistic

U.S. CFOs are very optimistic about 2015. On a scale from 0 to 100, they rate the outlook at 65, the most optimistic expectations for the U.S. economy since 2007.

Even with this optimism, U.S. executives express pressing concerns related to governmental policies and regulations, the cost of benefits, economic uncertainty, difficulty in hiring and retaining the right employees, and data security.

In Europe, economic optimism remains below long-run averages but is increasing.

Capital spending should rise by about 6 percent but fulltime employment will fall by 0.4 percent. Wages are expected to rise only 1.8 percent.

The outlook of CFOs in Asia varies by country.

Chinese and Japanese companies plan little capital spending growth over the next year, while the rest of Asia on average plans growth of more than 10 percent. Employment growth will be flat throughout Asia, while wages are expected to increase by less than 3 percent in China and Japan and about 8 percent in the rest of Asia.

Optimism about the overall economy in Africa is the weakest in the world – only 48 on a 100 point scale.

Employment at the median firm will remain flat, while wages are expected to rise by more than 9 percent over the next 12 months. Median capital spending will increase 5 percent. African CFOs are worried about a host of issues, especially economic uncertainty, the reliability and cost of electricity, regulatory requirements, currency risk and difficulty hiring the right employees.

Latin American economic optimism remains low (49), especially in Brazil (39). Peru and, to a lesser extent, Chile have stronger outlooks than Brazil. Top concerns include economic uncertainty, governmental policies, currency risk and employee productivity.

European CFOs Want Reform

The European Central Bank is embarking on a bond-buying program to spur economic growth and increase inflation.

Only 23 percent of European CFOs believe that the quantitative easing program will actually increase inflation. More believe that the program will benefit financial markets but not the real economy and/or that the program is not large enough or is too flawed to have a real impact.

In contrast, more than 80 percent of European CFOs think that structural reforms to the labour market and public sector would be effective.

Another 70 percent believe that direct investment by the government would spur the economy.

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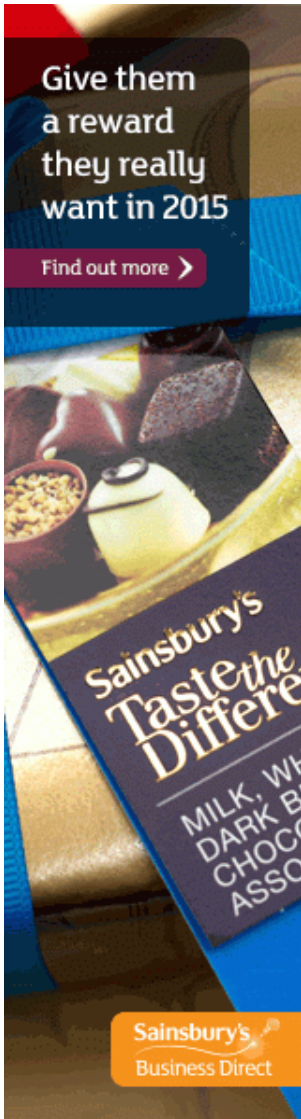
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