The Economy
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CFOs Revise Recession Projections
Finance chiefs still think an economic downturn is coming, but not until 2020, finds the first-quarter Duke/CFO Global Business Outlook Survey.
CFOs are pushing out the timing of their recession predictions, according to the latest quarterly Duke University/CFO Global Business Outlook survey. About two-thirds of U.S. CFOs (67%) now believe the United States economy will be in recession by the third quarter of 2020, and 84% think it will happen by the first quarter of 2021.

That's much later than the timing CFOs gave in December 2018, when almost half (49%) of them said they thought the U.S. economy would enter a period of contraction by the end of 2019. In this new survey, which ended April 5, only 38% think a recession will arrive by the first quarter of 2020.

“A majority of CFOs believe that the U.S. will be in recession within about 16 months,” said John Graham, a finance professor at Duke’s Fuqua School of Business and director of the survey. “While the start date of the recession has been pushed back relative to what we heard last quarter, there is a consensus that a downturn is approaching.”

The first-quarter survey puts CFOs’ projections closer to those of many U.S. economists. However, the two groups are not fully in sync. A National Association of Business Economics survey in February found that three-fourths of member economists expect a recession by the end of 2021, with only 42% saying a recession will happen in 2020.

Regardless, both economists and CFOs seem to agree that a 2019 recession is off the table. Indeed, Goldman Sachs economists recently proclaimed that the odds of a recession over the next four quarters are only a touch over 10%.

Which economic variables will provide an accurate indication of a coming slowdown? Almost half (47%) of CFOs consider GDP growth to be one of the top three indicators. Consumer spending (39%), commodity prices (31%), and interest rates (29%) were also named as top-three indicators in the Duke/CFO survey.

Supporting the notion that an economic downturn is over a year off, CFOs maintained their projections for 12-month increases in capital spending (5%), hiring (2%), and wages (3%).

“Wage inflation has picked up due to the tight labor market with 3.8% unemployment,” said Campbell Harvey, a founding director of the survey, who teaches a technology innovation course at Fuqua. “However, beware of over-interpreting wage inflation and low unemployment. Employment is a lagging indicator of the business cycle.”

The survey’s U.S. CFO optimism index, historically an accurate predictor of future hiring and overall GDP growth, dropped to 65 in the first quarter, down one point from last quarter and five points from September 2018. A year ago, the U.S. CFO optimism index was near a record high, at 71.2. It has averaged 60 on a 100-point scale for the past 20 years.
CFO optimism globally rebounded in the first quarter. On a scale of 0 to 100, optimism among CFOs in Europe rose two points, to 59. Asia climbed sharply to 65. Overall optimism among CFOs across Latin was at 65, led by Brazil with an optimism index of 66.

The first quarter Duke/CFO survey generated responses from more than 1,500 CFOs, including 469 from North America.


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