

Global CFO Survey: Recession in 2008, no relief until 2009

DUKE UNIVERSITY NEWS

Duke University Office of News & Communications

<http://www.dukenews.duke.edu>

HOLD FOR RELEASE: 4:40 p.m. EDT Wednesday, March 12, 2007

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SURVEY: NO ECONOMIC RECOVERY EXPECTED UNTIL LATE 2009; INFLATION REACHING 3 PERCENT; CREDIT MARKETS AND COST OF LABOR ARE TOP CONCERNS

Note to editors: For additional comment, see contact information at the end of this release.

DURHAM, N.C. – Optimism among chief financial officers in the United States has plummeted, with most CFOs saying the economy is currently in recession or will be in recession at some point during 2008. Nearly 90 percent of CFOs say the economy will not rebound until 2009. They expect inflation will increase to 3 percent this year.

These are some of the conclusions of the first quarter 2008 Duke University/*CFO* Magazine Global Business Outlook survey, which asked more than 1,000 CFOs from a broad range of global public and private companies about their expectations for the economy. (See end of release for survey methodology.) The survey has been conducted 48 consecutive quarters.

SUMMARY OF FINDINGS

-- 54 percent of CFOs say the U.S. is now in recession, and 24 percent of the remaining CFOs say there is a high likelihood of a recession this year. CFOs do not expect the economy to recover until late 2009.

-- Optimism reached its lowest point since the optimism index launched six years ago. Pessimists outnumber optimists by a nine-to-one margin, with 72 percent of CFOs more pessimistic and only 8 percent more optimistic about the U.S. economy than they were last quarter.

-- Weak consumer demand and turmoil in the credit and housing markets are the top macro-concerns of CFOs. The high cost of labor ranked as the top internal concern.

-- Credit conditions have directly hurt 35 percent of companies, through decreased availability of credit and higher interest rates (up 118 basis points on average). Sixty percent of firms have postponed expansion plans in response to credit market unrest.

-- Capital spending is expected to increase only 3.3 percent. Price inflation is expected to rise 3 percent over the next 12 months.

NO ECONOMIC RECOVERY UNTIL 2009

The outlook for the U.S. economy is dismal. Only 13 percent of CFOs think the U.S. economy will turn the corner and begin to rebound in 2008. Another 40 percent say the rebound will occur in the first half of 2009, while 47 percent say recovery will occur more than 15 months from now.

"Our survey started showing evidence of an economic slowdown a year ago," said John R. Graham, director of the survey and a finance professor at Duke's Fuqua School of Business. "Today, not only do the CFOs say we are already in recession, they predict a prolonged economic downturn. The news from CFOs is pretty grim."

Own-firm optimism reached an all-time low, with pessimists outnumbering optimists 38 percent to 30 percent.

MAIN STREET TO THE FED: HELP!

Duke professor Campbell R. Harvey said the Fed's interest rate cuts have failed to influence business confidence.

"There are some very significant findings from the survey," said Duke professor Campbell R. Harvey, founding director of the survey. "Seventy-four percent of CFOs say the Fed cuts have had no impact on their business. Clearly, the Fed needs to switch to Plan B. Yesterday's money market intervention announcement by the Fed is consistent with their desire to try a new reaction function."

"Second," Harvey noted, "the last two recessions lasted only eight months. In contrast, 90 percent of the CFOs do not believe the economy will turn the corner in 2008. Indeed, many of them believe it will be late 2009 before a recovery takes hold."

"This could be the longest slowdown since the double dip recession of 1979-81."

Harvey added: "Looking at the components of the survey, there are three particularly discouraging pieces of information: capital spending has been scaled back to a 'maintenance' level; there is no significant employment growth; and inflation is rearing its ugly head. Stagflation – slow economic growth and rising unemployment combined with inflation – could plague the slowdown and further confound the current Fed policy."

PESSIMISM ABOUT U.S. ECONOMY

Pessimism about the U.S. economy is in record territory, with pessimists far outnumbering optimists. The CFO optimism index for the U.S. economy, begun in June 2001, reached its lowest level ever. (See chart at end of release.)

"We also asked CFOs to rate the economy on a scale of 0 to 100, with 64 being the average rating since 2001," Graham said. "The current rating is 52, the lowest score in the seven-year history of the optimism index. This is dramatic because CFOs have a track record of accurately predicting future economic activity, and their predictions run one or two months ahead of other common economic indicators. With overwhelming CFO pessimism, we expect weak capital spending and employment in 2008."

EXPORT DEMAND

Kate O'Sullivan, senior staff writer at *CFO Magazine*, said CFOs were questioned about the impact of the U.S. dollar reaching record lows. "We asked the CFOs whether the weakening dollar had led

to a silver lining in the form of increased export demand that is helping to soften the blow caused by a slowing U.S. economy,” O’Sullivan said. “Among firms that export their product, 86 percent

say that they expect their company’s foreign activity to offset weak U.S. demand. Half of multinational firms say exports will help moderately or a large amount.”

TOP CORPORATE CONCERNS

Concerns about weak consumer demand, credit markets, housing market fallout and high fuel costs top the list of CFO macro-concerns about the U.S. economy.

High labor costs, the cost of healthcare, and supply chain risk are among the top concerns related more directly to their own companies.

MERGERS AND ACQUISITIONS

With prices falling, the corporate sector should remain active in mergers and acquisitions. Thirty-seven percent of U.S. firms plan to make an acquisition during the next 12 months. Nearly one-third of firms planning an acquisition say they will buy a whole company or companies.

RESULTS UNIQUE TO EUROPE

European CFOs have become very pessimistic. In the past quarter, 60 percent of European CFOs have grown more pessimistic about the economies of their own countries relative to the previous quarter, and only 10 percent have grown more optimistic.

Only 24 percent of European CFOs think their country is in recession, with Belgium and France being in the worst shape.

European employment is expected to fall 0.3 percent. The cost of labor is the No. 1 internal corporate concern in Europe, with weak consumer demand the No. 1 macro-concern, followed by credit market turmoil.

European tech spending is expected to grow by a robust 8.8 percent.

RESULTS UNIQUE TO ASIA

CFO optimism fell dramatically in Asia, with 43 percent of respondents becoming more pessimistic about regional economic growth than they were last quarter, and 38 percent growing more optimistic. Domestic employment should increase 8 percent in 2008, and capital spending a strong 20 percent on average. Wages should jump by nearly 10 percent.

Seventy percent of Asian CFOs think the U.S. economy is in recession, and half think that this will have a meaningful negative impact on their firm’s earnings. Sixty-four percent expect own-country domestic demand to help replace U.S. demand, and 39 percent expect Pacific Rim demand to help.

Forty-nine percent of Asian CFOs want Barack Obama to be the next U.S. president, followed by 37 percent for Hillary Clinton and only 8 percent for John McCain.

RESULTS UNIQUE TO CHINA

Most Chinese firms report some business problems due to a recent massive snow storm. Of those affected, the main problems were transportation (which affected 60 percent of firms) and power supply (25 percent).

Two-thirds of Chinese firms are concerned about a U.S. recession, due to mounting profit margin pressure and decreased exports.

Chinese optimism is down, with 40 percent of Chinese CFOs having become more pessimistic and only 26 percent of respondents having become more optimistic about Chinese economic growth than last quarter. However, the absolute level of Chinese optimism (69 on a scale of 0 to 100) is greater than overall Asian optimism (60), as well as U.S. (52) and European (58) absolute optimism.

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For additional comment, contact Duke's John Graham at (919) 660-7857 or john.graham@duke.edu or *CFO* magazine's Kate O'Sullivan at (617) 345-9700 (x214) or kateosullivan@cfo.com. For commentary about European results, contact Janet Kersnar at +44 0 20 7576 8100 or janetkersnar@cfoeurope.com or Tilburg's Kees Koedijk at +31-6-55186755 or C.Koedijk@uvt.nl. For commentary about Asian results, contact Don Durfee at +852 2585 3275 or dondurfee@economist.com. For commentary about Chinese results, contact Chen Wu at +86-21-64737128 ext 24 or chenwu@economist.com

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

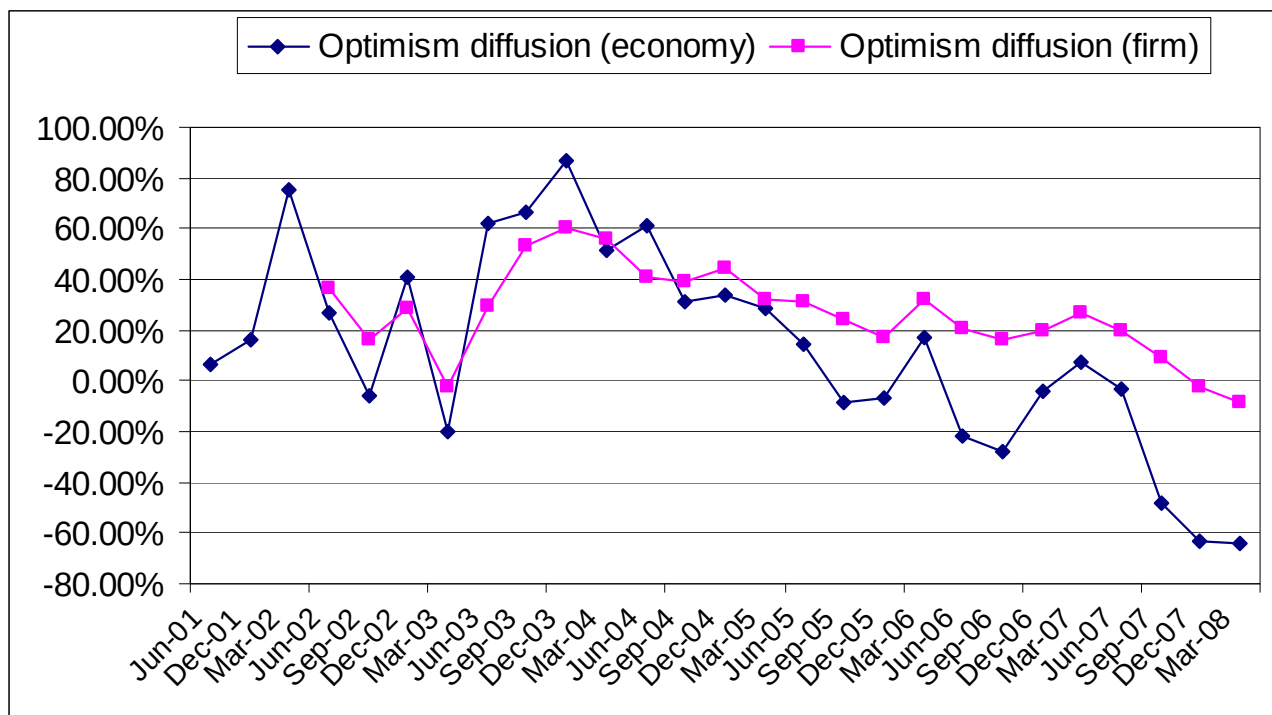
About the survey: This is the 48th consecutive quarter that the Duke University/*CFO Magazine* Global Business Outlook survey has been conducted. The survey concluded March 7 and generated responses from 1,073 CFOs, including 475 from the U.S., 205 from Europe, 204 from Asia (not including China), and 189 from China. The survey of European CFOs was conducted jointly with Tilburg University in the Netherlands. Results in this release are for U.S. companies, unless otherwise noted. Among the industries represented in the survey are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, service/consulting and banking/finance/insurance. Revenue-weighted mean growth rates are provided for earnings, revenues, capital spending, technology spending and prices of products. Employee-weighted mean growth rates are used for health-care costs, productivity, number of employees and outsourced employment. The earnings, dividends, share repurchases and cash on balance sheet are for public companies only. Unless explicitly noted, all other numbers are for all companies, including private companies.

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Optimism diffusion measures the percentage of CFOs who have increased optimism minus the percentage who have decreased optimism (through March 2008).



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