



CFO

DUKE CFO GLOBAL BUSINESS OUTLOOK



IAFEI AND A GROUP OF PARTNERS AMONG WHICH DUKE UNIVERSITY AND GRENOBLE EM SURVEY CFOs ACROSS THE WORLD. FOR THE FIRST QUARTER 2017, THE SURVEY WAS RUNNING FROM 21 FEBRUARY TO 9 MARCH 2017.

CFOs TO TRUMP: STOP TWEETING, LOSE THE BORDER TAX, BUT CONTINUE SOME REFORMS

DURHAM, N.C. -- Chief financial officers in the United States are concerned about how President Donald Trump's off-the-cuff Twitter feed and public comments affect business, a new survey finds. Two-thirds said it would be better if the president stuck with prepared remarks in public and stop using Twitter. Results also show CFOs are feeling the most confident about economic growth than they've been in more than a dozen years, and they strongly support several of the president's initiatives.

"CFOs are very clear," said [John Graham](#), a finance professor at [Duke's Fuqua School of Business](#) and director of the survey. "They don't like the fluctuations and uncertainty that result from how President Trump communicates to the public, but they say many of his ideas will be good for business, even some of the more controversial ones."

Advice for the New President

The survey asked CFOs what advice they would give President Trump for the good of the business community.

- 67 percent said the president should stop using Twitter;
- 70 percent said he should stick to prepared remarks during speeches;
- 85 percent oppose reducing H1-B visas for highly skilled workers;
- 64 percent are against building a wall along the Mexican border;
- 68 percent favor retaining the current leadership at the Federal Reserve Bank;
- 58 percent support the president's plan to restrict immigration from specific countries.

Mixed Bag on Tax Reform

- CFOs strongly support plans to reduce the corporate income tax rate to as low as 20 percent, with 86 percent indicating this would be good or very good for the economy.
- Likewise, 75 percent say easing the repatriation of foreign profits will give the economy a boost, and the same number said allowing companies to immediately deduct new investment will be beneficial.
- Seventy-four percent said reducing the top personal income tax rate to 30 percent will be good or very good for business prospects.

CFOs are not in favor of all the proposed tax reforms.

- Fifty-seven percent said a substantial tariff on Chinese and Mexican goods would be bad or very bad for the US economy, as do 58 percent with respect to a proposed elimination of the debt interest deduction.
- A similar 55 percent say a border tax would be bad for the business outlook.

"Among firms that say their firm would be directly affected by a border tax, 85 percent say their company's bottom line would suffer as a result," said Campbell R. Harvey, founding director of the CFO Survey. "Even if the US dollar were to appreciate by 20 percent, 73 percent say their bottom line would take a hit."

Among Mexican CFOs, 25 percent say the Mexican government should retaliate in kind against any trade penalties imposed by the US, and another 50 percent said they should resist the US policy but not retaliate. Sixty-five percent of Mexican CFOs believe their own firms should remain neutral. More than half of European CFOs believe their countries should retaliate or resist US trade proposals, with 65 percent of French companies favoring such action. Forty-two percent of Canadian firms believe their government should resist U.S. trade proposals but only 8 percent say Canada should retaliate.

Strong Optimism, Hiring, and Spending. The Optimism Index jumped this quarter to 69 (on a 100-point scale), the highest level in 14 years and much higher than the long-run average of 60.

"The jump in business optimism is leading to strong hiring and spending plans for 2017," Graham said. "Our analysis of past forecasts shows that the Optimism Index is an accurate predictor of GDP growth and employment over the next year."

Sixty-one percent of U.S. firms plan to increase their payrolls in 2017, with an average increase of approximately 3 percent (median 1 percent). Wage hikes are expected to average nearly 4 percent. Capital spending is expected to increase 6 percent on average (median 3 percent), a notable improvement from flat or negative spending plans for most of 2016.

Top Concerns. US CFOs list current government policies and economic uncertainty as their top business concerns. In signs of a tightening labor market, difficulty in attracting and retaining employees is close behind. The rising costs of benefits is another top concern, with health care costs expected to rise by 6.8 percent over the next year.

Reduced Public Trust of Government and Business. More than 80 percent of US companies say lack of public trust in business and government is harming the business environment. Forty-seven percent say the negative influence is harming the economy moderately or a great deal. Nearly half of CFOs say their firms have altered business decisions, increased transparency, and strengthened governance to try to offset reduced public trust.

Fixing Economies around the World. We asked countries around the globe about issues that must be addressed to improve the business climate in their home countries.

- **Latin America:** more than two-thirds of CFOs say corruption and a weak judiciary are important problems that must be addressed to improve the business climate. About half indicate that improving infrastructure and reducing crime are also important. More than 80 percent of Latin American companies say that lack of public trust is moderately or greatly harming the business environment. Still, economic optimism rebounded from near-historic lows last quarter. **Mexico** in particular shrugged off last quarter's decline in optimism and returned to 61 this quarter, on a 100 point scale. Optimism increased in all surveyed Latin American countries, except **Peru** (63). Other optimism ratings include **Chile** (47), **Colombia** (57), **Brazil** (58), and **Argentina** (70). Eighty percent of Brazilian CFOs say their optimism is higher now than six months ago, when President Temer took office.

Averaged across Latin America, capital spending plans are up 2 percent. Full-time employment is expected to grow a modest 1 percent. The recent Odebrecht corruption scandal made headlines and implicated government officials in Peru and Brazil; however, only about 15 percent of firms in these two countries say this caused them to reduce planned investment spending in 2017.

- **Asia:** Approximately 70 percent of CFOs in India and The **Philippines** say that corruption is a significant problem holding back the economy, and 40 percent of Chinese CFOs say the judiciary must be fixed. Nearly 40 percent of Asian CFOs identify the corporate tax system, and 34 percent say other government regulations, must be reformed to improve the economy. Half of Asian CFOs, including two-thirds in Japan, say they lack the human capital necessary to respond rapidly to a sudden increase in demand. 70 percent of Asian companies say that lack of public trust is moderately or greatly harming the business environment.

Asian Business Optimism averaged 58 this quarter, ranging from 45 in **Singapore**, 46 in **Malaysia**, 56 in **Japan**, 61 in **China**, and 64 in **India**. Concerns that are dampening Asian optimism include economic uncertainty and currency risk. Capital spending should increase a robust 7.5 percent (median) across Asia, though by less than 2 percent in China. Employment and wages should both increase by about 5 percent in 2017, with wages increasing 2.5 percent in Japan versus 7.7 percent in China. Fully 100 percent of Chinese CFOs say that air pollution harms the Chinese economy, with 29 percent saying the effect is very negative. Half of Japanese CFOs believe that the government's initiative to reduce work hours will improve worker productivity but only one-fourth think it will help the bottom line.

- **Africa:** Two-thirds of African CFOs say that corruption is a significant problem that must be addressed to improve the business climate, and more than half say the same about infrastructure. Sixty percent of Nigerian CFOs say that inflation must be tamed to fix the economy and 63 percent of South African CFOs say that political instability must be reduced. Nearly half of South African CFOs say they lack the human capital necessary to respond rapidly to a sudden increase in demand. 53 percent indicate that a lack of public trust is greatly harming the business environment and another 29 percent say the harm is moderate.

South African optimism fell to 39 this quarter, from 45 last quarter, while **Nigerian** optimism increased from 49 to 52. Capital spending will rise by a median 5 percent, and wages should increase 7 percent over the next 12 months. Fulltime employment

will decrease. African CFOs are worried about economic uncertainty, government policies, currency risk, and in Nigeria, inflation. Nearly 80 percent of African CFOs say that their companies are not even halfway to implementing the UN Sustainable Development Goals.

- **Europe:** CFOs say that reducing business regulations is the top item that must be addressed to improve the business climate, followed closely by reducing political instability. European CFOs rank improving public education and the judiciary as the third and fourth most important items to improve the economy. Nearly 60 percent of Italian CFOs indicate that reducing corruption and a strengthened judiciary is essential to improving the business climate. Wages should increase by 2 percent over the next year, and employment will remain essentially unchanged. Capital spending is expected to rise 3.3 percent (median). Top European concerns include economic uncertainty, regulatory requirements, government policies, and attracting qualified employees. Business Optimism fell by one point to 56 this quarter (on a 100-point scale). Optimism is particularly strong in the **Netherlands** (69) and **Germany** (65) and weakest among surveyed countries in **Italy** (50). Optimism in **France** (55) and the **UK** (54) is moderate.
- **Canadian** optimism jumped to 67 this quarter, up from 63 last quarter. Capital spending and employment should both grow by about 3 percent. 55 percent of Canadian CFOs think that business regulations must be reduced to improve the business environment, and 48 percent say the same about improving infrastructure.