



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 SECOND QUARTER 2017, THE SURVEY WAS RUNNING FROM 23<sup>RD</sup> MAY TO 9<sup>TH</sup> JUNE 2017.

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## **CFO Survey: Uncertainty Slows Spending Plans in the US**

Uncertainty about regulatory policy and health care costs is causing chief financial officers in the United States to hold back investment plans. More specifically, uncertainty about regulatory policy is putting companies in a wait and see mode, putting expansion in general on hold.

Almost 40 percent of CFOs indicated uncertainty is currently higher than normal. Among those companies, about 60 percent said that uncertainty has caused them to delay new projects and investments.

If one multiplies those two numbers together, it means that current uncertainty is causing nearly 1 out of every 4 companies to delay or cancel plans. That might be enough to significantly dampen growth.

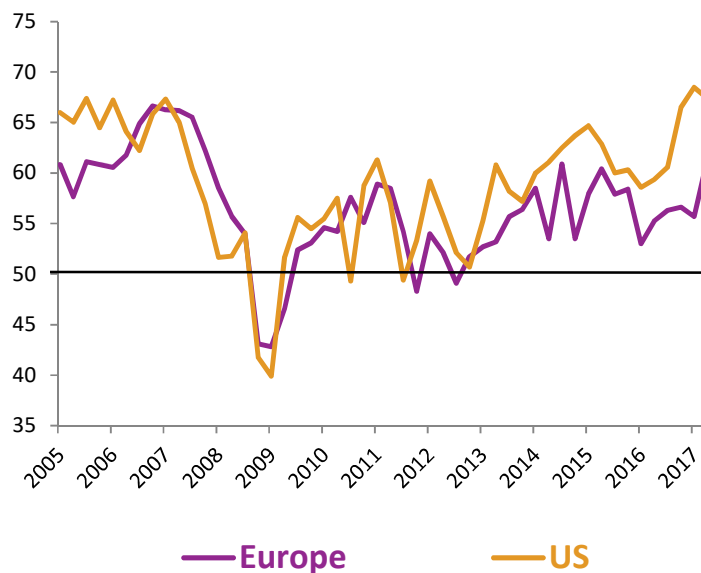
## **Optimism Remains Strong**

The Optimism Index fell slightly this quarter to 67 on a 100-point scale. That's two points lower than last quarter but still far above the long-run average of 60. CFOs remain optimistic not only about the overall economy but about their own firms too. Hiring plans are stronger than one year ago and U.S. companies expect to pay higher wages, with median wage growth of about 3 percent over the next 12 months, even greater in the construction and tech industries.

## Top Concerns

This quarter, for the first time, the top concern among CFOs is difficulty hiring and retaining qualified employees. Firms are finding it harder to find qualified employees with the skill sets they seek. There are indications of shortages of both management talent and skilled jobs such as diesel mechanics, tech engineers, and sales and service positions. Other top concerns include health care costs, which are expected to increase by more than 7 percent over the next year; Washington gridlock and, for the first time as a top 5 concern, data security.

**CFO survey: Optimism index**



## Global results

Optimism is up in **Europe**, especially in France, only a notch below U.S. optimism. Capital spending will strengthen and moderate employment growth (1.7 percent) is expected. Top concerns include economic uncertainty, attracting and retaining qualified employees, followed by governmental regulations and policies. About one in five companies say they are delaying expansion due to uncertainty about regulation and the economy. Shortage of funding and of qualified employees limits the ability to pursue certain value-creating projects (in addition to too much uncertainty about some projects and these projects not being core to the firm).

Optimism is up in **Asia**, nearly as high as in the U.S. Difficulty attracting employees, currency risk, and falling employee productivity are top concerns. Five percent capital spending and 2.7 percent employment growth expected. About one-third of firms say uncertainty about economic growth and tax policy are greater than normal but few Asian firms are slowing expansion plans in response. Too much uncertainty and overly optimistic projections are primary reasons that some value-creating projects are not always pursued (in addition risk being too high and the project not being core to the firm's strategies).

**Latin American** CFOs have moderate optimism, up from very low levels one year ago. After dropping 6 months ago, Mexican optimism has almost fully recovered. Still, there are significant concerns about economic uncertainty and weak demand. Business spending will be flat and fulltime employment will fall. More so than other parts of the world, more Latin American CFOs will delay or cancel expansion plans due to economic and political uncertainty. Shortage of funding is the top reason for not pursuing all value-creating projects.

Business optimism in **Africa** is the lowest in the world. Employment outlook is weak. Biggest concerns are economic uncertainty, volatility of the political situation, and governmental policies. Fifty-five percent say that uncertainty is worse than normal, and among these firms more than half are holding off on expansion in response. Shortage of funding limits ability to pursue value-creating projects (in addition to projects not being core to the firm and scarcity of management time).

**Table 1: During the past quarter, which items have been the most pressing concerns for your company's top management team?**

	Europe	Latin America	Asia	U.S.A.
<b>Economic uncertainty</b>	<b>38.3</b>	<b>69.4</b>	<b>42.0</b>	<b>31.7</b>
Currency risk	18.0	16.7	33.7	4.2
Weak demand	17.2	56.9	23.7	19.7
<b>Government policies</b>	<b>29.7</b>	<b>43.1</b>	<b>31.3</b>	<b>36.2</b>
Access to capital	21.1	23.6	15.7	11.8
Regulatory Requirements	30.5	9.7	14.5	30.3
<b>Difficulty attracting / retaining qualified employees</b>	<b>33.6</b>	<b>6.9</b>	<b>34.5</b>	<b>41.0</b>
Employee productivity	21.1	18.1	25.4	20.2
Rising wages and salaries	10.2	4.2	13.8	14.9
Employee morale	18.0	2.8	18.4	11.8
Cost of borrowing	4.7	22.2	4.2	6.5
Data security	25.0	6.9	22.2	31.2
Geopolitical / health crises	10.9	8.3	18.1	8.1
Deflation	2.3	1.4	3.0	0.8
Rising input or commodity costs	9.4	6.9	7.0	7.6
Cost of benefits	7.8	19.4	11.1	36.0
Corporate tax code	7.0	20.8	6.9	16.0
Inflation	1.6	2.8	0.8	2.0
Other	8.6	8.3	6.5	6.5

**Table 2: Relative to the previous 12 months, what will be your company's PERCENTAGE CHANGE during the next 12 months? (mean by region)**

	Europe	Latin America	Asia	U.S.A.
<b>Revenue</b>	<b>5.6</b>	<b>3.7</b>	<b>3.6</b>	<b>6.2</b>
<b>Inflation (Change in prices of own-firm products)</b>	<b>1.7</b>	<b>3.2</b>	<b>-0.9</b>	<b>2.5</b>
<b>Capital spending</b>	<b>8.2</b>	<b>-0.6</b>	<b>5.4</b>	<b>2.2</b>
<b>Technology spending</b>	<b>6.9</b>	<b>2.8</b>	<b>3.7</b>	<b>4.1</b>
<b>R&amp;D spending</b>	<b>6.7</b>	<b>-0.1</b>	<b>1.6</b>	<b>2.3</b>
<b>Advertising and marketing spending</b>	<b>3.9</b>	<b>2.5</b>	<b>2.0</b>	<b>1.8</b>
<b>Employment – full-time</b>	<b>1.7</b>	<b>-4.1</b>	<b>2.6</b>	<b>3.8</b>
<b>Wages and Salaries</b>	<b>3.4</b>	<b>3.8</b>	<b>3.0</b>	<b>4.1</b>
<b>Health Care Costs</b>	<b>2.2</b>	<b>5.4</b>	<b>5.7</b>	<b>7.8</b>
<b>Earnings growth</b>	<b>3.2</b>	<b>3.0</b>	<b>10.8</b>	<b>8.2</b>

The survey has been conducted for 85 consecutive quarters and spans the globe, making it the world's longest-running and most comprehensive research on senior finance executives. This quarter, nearly 750 CFOs responded to the survey, which ended June 9.