

# CFO Quarterly Outlook Survey

Conducted by Financial  
Executives International and  
Baruch College,  
The City University of New York

March 2009



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# CFO Quarterly Outlook Survey

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## Executive Summary

While confidence in the U.S. economy and leadership remain low among CFOs of American companies, many are speaking out and taking action to protect their own businesses and workforce, according to the most recent quarterly survey conducted by Financial Executives International (FEI) and Baruch College's Zicklin School of Business.

CFOs responding to the 2009 first quarter "CFO Outlook Survey" overwhelmingly declared that they need more from their boards of directors, with four out of five expressing discontent with the current relationship. CFOs also conveyed skepticism over the effects President Obama will have on the economy, with 58 percent reporting they are less confident since his inauguration, and only one-third expecting the stimulus package will help the economy. As CFOs are forced to make tough decisions on cost cutting, half are freezing salaries and using other unconventional measures to avoid layoffs.

The CFO Optimism Index for the U.S. economy in first quarter 2009 continued its downward trend to 38.96 - another all time low and a 47 percent drop from its 2004 high (73.55). Amid the dismal news, the survey revealed a glimmer of encouragement: respondents' outlook toward their own businesses saw the first incline in more than three years, with an increase to 58.93 from last quarter's 58.07.

### **CFOs Freeze Salaries, Mandate Unpaid Time Off to Salvage Jobs**

CFOs are undoubtedly faced with massive cuts; however to avoid layoffs, CFOs report they are implementing the following:

- Salary freeze – 51%
- Redistribution of responsibilities – 29%
- Elimination of bonuses – 29%
- Restructuring – 29%
- Salary decreases – 20%
- Shortened work week – 16%
- Mandatory unpaid time off – 11%
- Option to telecommute – 3%

### **CFOs Need Boards to Act as Partners**

Improved collaboration with their board of directors is a priority for many CFOs. When CFOs (whose companies have a board) were asked what they need most from their boards right now, over half said they want their board to act as a partner in exploring ways to get through a challenging economy (54%). Other popular answers included:

- Nearly half want them to collaborate more on solutions to deal with present circumstances (48%)
- One quarter are looking for them to serve as counsel to the CFO (24%)
- One in five wish they would serve as sounding boards for CFO concerns (20%)

### **CFOs Remain Doubtful on Obama Administration, Stimulus Package**

As we journey through the first 100 days of a new Presidential administration, CFOs weighed in on their sentiments toward President Obama's performance and their thoughts on recent policy. Only 9 percent of CFOs said that President Obama's inauguration has improved their U.S. economic outlook and increased confidence. Accordingly, more than half (58%) stated their confidence in the economy has actually weakened since the President took office. One third (33%) felt it was too soon to determine. To that end, only one third of CFOs (33%) believe the stimulus package signed into law in February 2009 will aid the economy, while an even smaller percentage (21%) foresee a benefit in the package for their own companies. While support of the package is less than favorable, CFOs of this quarter's survey identified infrastructure (34%), tax relief (31%), job developments (28%), energy (24%) and health care (23%) as the most important components for their companies. Surprisingly, a relatively small number of CFOs (5%) felt that the package's components on jobless benefits would help their companies.

### **Signs of Recession Recovery Not Likely Until 2010**

While concerns over the U.S. economy intensify, CFOs see no signs of recovery in the current year. When asked when they believe economic indicators - such as bond yields, mortgage interest rates, U.S. unemployment rate and rising GDP - will collectively improve and result in the start of a U.S. economic recovery, an overwhelming majority (83%) predict that signs of a recovery will not begin until the first half of 2010 or later. Specifically, 47 percent see relief during the first half of 2010, 25 percent in the second half of 2010, and 11 percent beyond. Fourteen percent are in the optimistic minority, expecting recovery to begin this year.

### **Additional Results:**

- Top economic concerns for 2009:
  - #1 - U.S economic growth (69%)
  - #2 - Consumer spending/demand (52%)
  - Frequent "other" responses: unemployment, availability of credit and access to capital.
- Top business challenges for first half of 2009:
  - #1 - Expense control (34%)
  - #2 - Competition (15%); slightly down from Q4 2008 (21%)
  - Frequent "other" responses: revenue growth/generation and access to capital
- CFOs expect small increases in health care costs and technology spending; decreases in the areas of capital spending, hiring, price of products and inventory
  - By comparison, in Q1 2008 CFOs anticipated increases in each of these areas.
- Top areas for planned cutbacks in 2009: hiring (75%), capital spending (64%), layoffs (44%) and benefits (38%).

Additional topics CFOs were surveyed on include violation or renegotiation of covenants and the hiring of outside advisors.

## Detailed Survey Results

This quarter, the CFO Outlook Survey, conducted by Financial Executives International and Baruch College's Zicklin School of Business, interviewed 334 corporate CFOs electronically from March 3 through March 9. CFOs from both public and private companies and from a broad range of industries, revenues and geographic areas, including some off-shore companies, are represented. Survey respondents are members of Financial Executives International.

### 1. Rate your optimism about the US economy on a scale from 0-100, with 0 being the least optimistic and 100 being the most optimistic.

This quarter: 38.96

Last quarter: 39.85

This quarter's survey results indicated that CFO optimism is at an all-time low when compared to the results over the past four years.

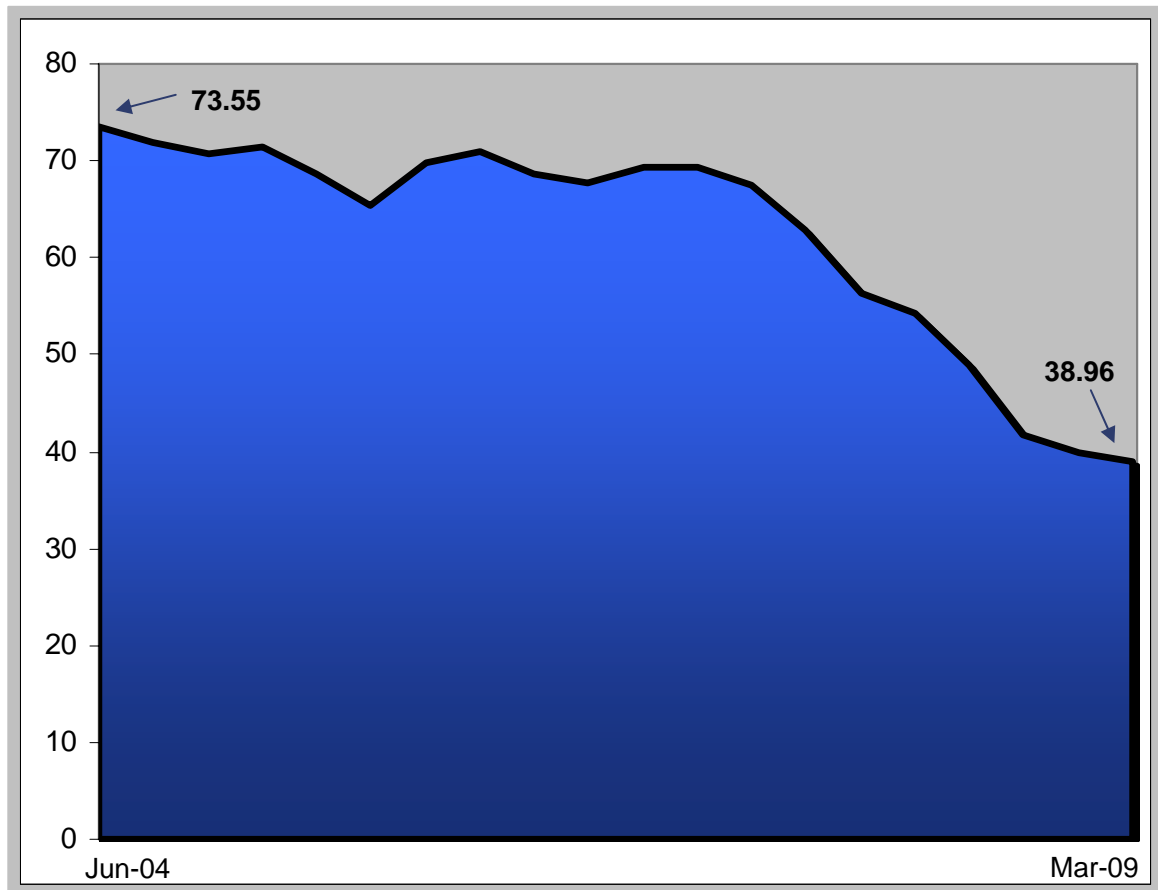


Figure A: Median CFO optimism about the economy.

Source: FEI/Baruch College

**2. Rate your optimism about the financial prospects for your company on a scale from 0-100, with 0 being the least optimistic and 100 being the most optimistic.**

This quarter: 58.93  
 Last quarter: 58.07

Likewise, as with the previous question, CFOs optimism about their companies continues to decline. However, there is a slight up tick from the previous quarter.

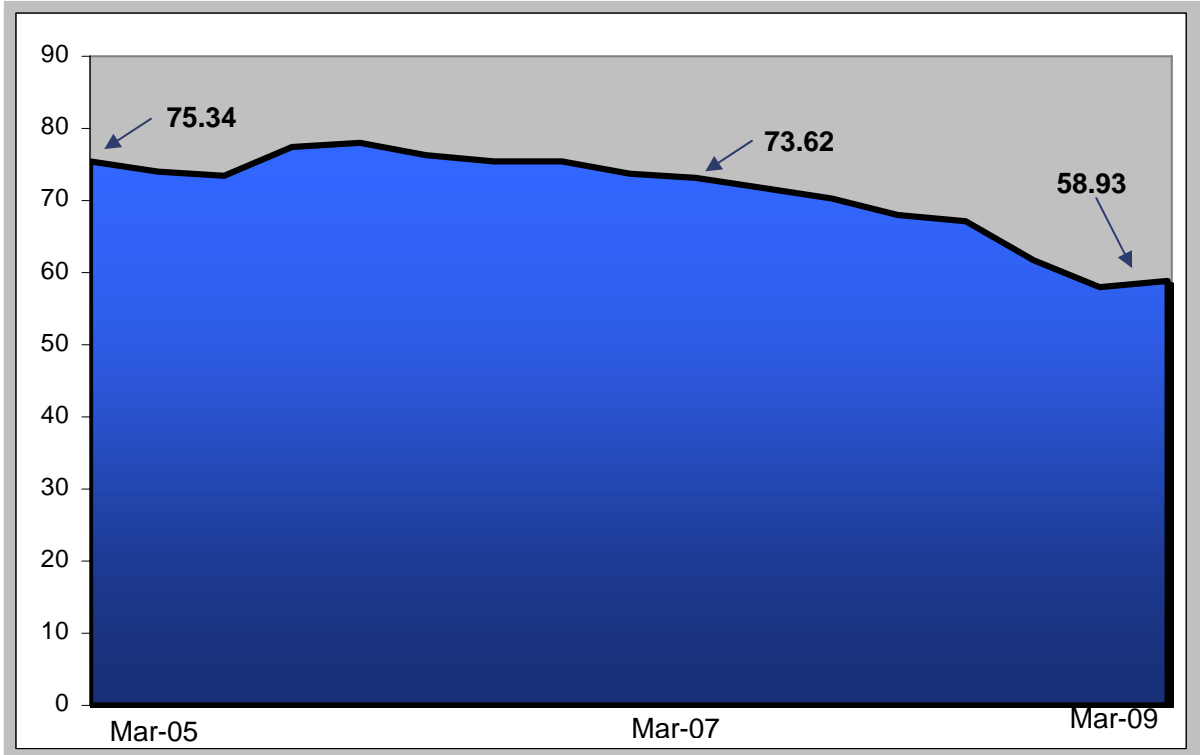


Figure B: Median CFO optimism about their companies

Source: FEI/Baruch College

**3. What effect, if any, has the inauguration of President Barack Obama, and the first few weeks of his administration had on your U.S. economic outlook?**

	<u>Percent</u>
Improved - I am more confident	9.3 %
Unaffected/Too soon to determine	32.9 %
Weakened - I am less confident	57.8 %

**4. What are your company's top two economic worries for 2009? Label your choices 1 and 2.**

	1 <sup>st</sup>	2 <sup>nd</sup>	Total
U.S. economic growth	43.4%	25.7%	69.2%
Consumer spending/demand	31.1%	21.0%	52.1%
Other	14.4%	10.8%	25.1%
Global unrest	0.9%	1.8%	2.7%
Value of the dollar	2.1%	4.8%	6.9%
Oil costs	0.9%	2.1%	3.0%
Health care costs	2.7%	7.8%	10.5%
Cost of regulatory compliance	1.5%	6.6%	8.1%
Inflation	0.6%	3.9%	4.5%
Global competition	0.6%	4.5%	5.1%
An increase in interest rates	0.6%	5.4%	6.0%
Wage increases	0.0%	1.5%	1.5%
Terrorist attack on U.S. soil	0.0%	0.6%	0.6%
Iraq war	0.0%	0.0%	0.0%

Figure C below provides a comparison of the top economic worries of CFO over three quarters. U.S. economic growth as a top worry is up nearly 30 percent from Q4 2008. Meanwhile, consumer spending as a concern is up over 20 percent from Q2 2008.

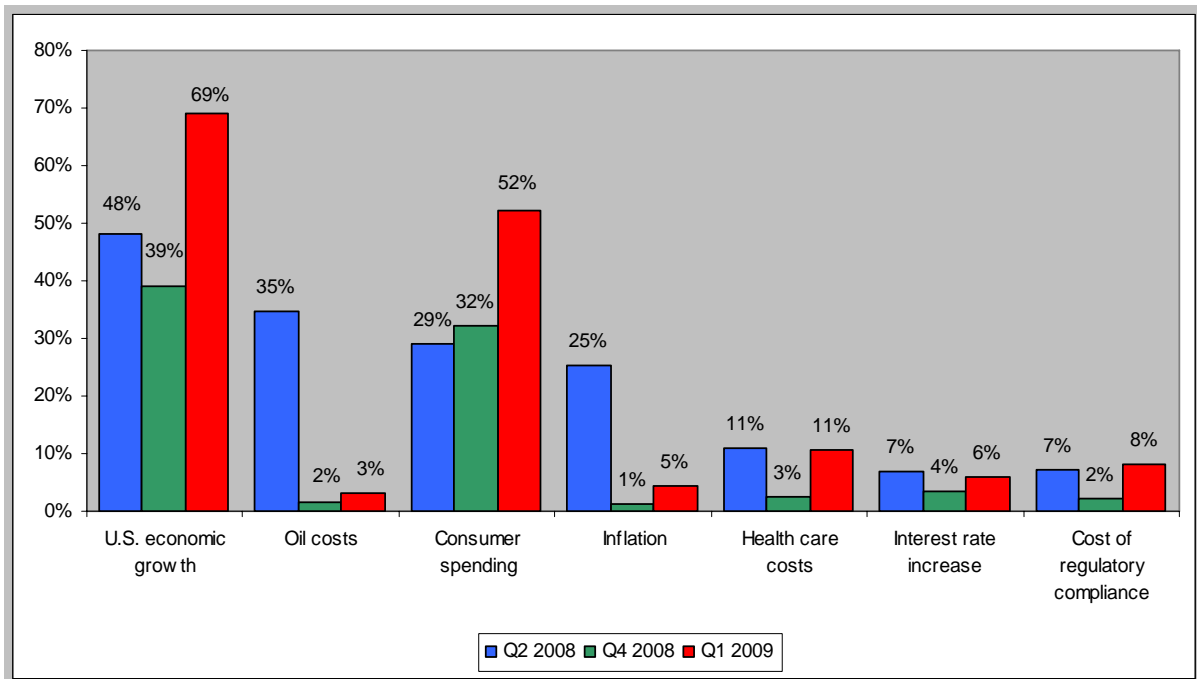


Figure C: Companies' Top Economic Worries for 2009 versus previous quarters.

Source: FEI/Baruch College

**5. What do you consider your company's top business challenge for the first half of 2009 (choose one)?**

	Percent
Expense control	33.5 %
Competition	15.1 %
Regulatory issues	4.3 %
Controlling labor costs	3.7 %
Personnel issues	2.8 %
Finding qualified workers	1.8 %

**6. For each of the following, provide the changes expected at your own company for the NEXT 12 months (e.g., +3, -2, etc.).**

	This Quarter	Last Quarter
Technology spending	0.61%	0.02%
Capital spending	-5.28%	-4.57%
Hiring	-5.52%	-3.09%
Prices of your products	-0.79%	-0.04%
Inventory	-6.22%	-4.34%
Healthcare costs	7.19%	8.09%

A four year comparison of optimism indices and changes in spending and product pricing is provided in Figure D on the following page.



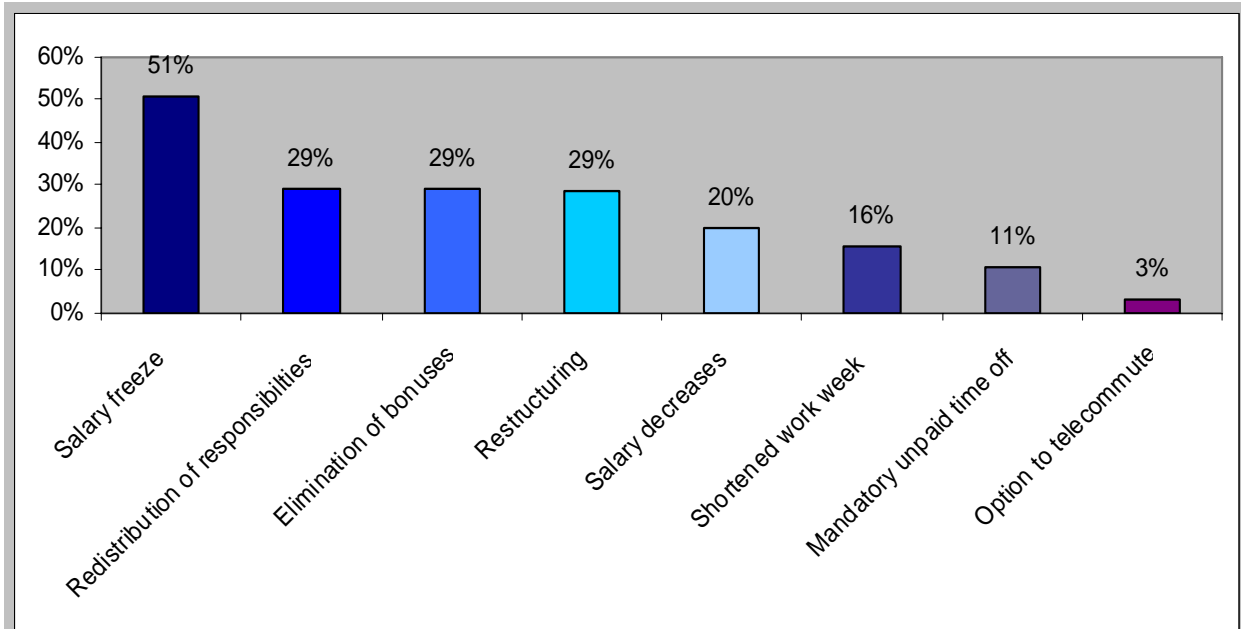
Figure D: FEI/Baruch CFO Outlook Surveys – Five Year Comparison by Quarter

	Mar-09	Dec-08	Sep-08	Jun-08	Mar-08	Dec-07	Sep-07	Jun-07	Mar-07	Dec-06	Sep-06	Jun-06	Mar-06	Dec-05	Sep-05	Jun-05	Mar-05	Dec-04	Sep-04	Jun-04
<b>Optimism about the economy</b>	38.96 Decrease of 2.2% from last Q and 43.8% from last year.	39.85 Decrease of 4.5% from last Q and 29.2% from last year.	41.73 Decrease of 14.7% from last Q and 33.6% from last year.	48.92 Decrease of 10.8% from last Q and 27.5% from last year.	54.29 Decrease of 3.5% from last Q and 21.6% from last year.	56.26 Decrease of 10.5% from last Q and 19% decrease from last year.	62.85	67.46	69.29	69.28	67.6	68.64	71.06	69.69	65.35 A 4.8% decrease from last Q	68.66	71.42	70.78	71.98	73.55
<b>Optimism about own company</b>	58.93 Increase of 1.5% from last Q and decrease of 20% from last year.	58.07 Decrease of 5.9% from last Q and 17.3% from last year.	61.74 Decrease of 7.93% from last Q and 13.87% from last year.	67.06 Decrease of 1.6% from last Q and 8.4% from last year.	68.12 Decrease of 3.0% from last Q and 7.5% from last year.	70.26 Decrease of 2% from last Q and 5.31% from last year.	71.68	73.19	73.62	75.57	75.46	76.27	78.12	77.37	73.43	74.09	75.34	75.73	76.06	76.4
<b>Capital spending</b>	Expected decrease of 5.28% in the next 12 months.	Expected decrease of 4.57% in the next 12 months.	Expected decrease of 1.70% in the next 12 months.	Expected increase of 7.67% in the next 12 months.	Expected increase of 9.62% in the next 12 months.	Expected increase of 9.96% in the next 12 months.	Expected increase of 15.05% in the next 12 months.	Expected increase of 2.26% in the next 12 months.	Expected increase of 7.87% in the next 12 months.	Expected increase of 7.3% in the next 12 months.	Expected increase of 7.98% in the next 12 months.	Expected increase of 8.09% in the next 12 months.	Expected increase of 6.6% in the next 12 months.	Expected increase of 9.1% in the next 12 months.	Expected increase of 6.0% in the next 12 months.	Expected increase of 5.1% in the next 12 months.	Expected increase of 13.1% in the next 12 months.	Expected increase of 13.7% for next 12 months.	Expected increase of 7.8% for next 12 months.	Expected increase of 14.8% for next 12 months.
<b>Health care costs</b>	Expected increase of 7.19% in the next 12 months.	Expected increase of 8.09% in the next 12 months.	Expected increase of 7.88% in the next 12 months.	Expected increase of 8.13% in the next 12 months.	Expected increase of 8.39% in the next 12 months.	Expected increase of 8.25% in the next 12 months.	N/A	Expected increase of 8.19% in the next 12 months.	Expected increase of 9.46% in the next 12 months.	Expected increase of 9.2% in the next 12 months.	Expected increase of 7.72% in the next 12 months.	Expected increase of 8.38% in the next 12 months.	Expected increase of 8.4% in the next 12 months.	Expected increase of 7.2% in the next 12 months.	Expected increase of 7.9% in the next 12 months.	Expected increase of 7.9% in the next 12 months.	Expected increase of 9.3% in the next 12 months.	Expected increase of 9.9% in the next 12 months.	Expected increase of 9.1% in the next 12 months.	Expected increase of 10.6% in the next 12 months.
<b>Technology spending</b>	Expected increase of .61% in the next 12 months.	Expected increase of 0.02% in the next 12 months.	Expected decrease of .20% in the next 12 months.	Expected increase of 3.71% in the next 12 months.	Expected increase of 5.16% in the next 12 months.	Expected increase of 11.54% in the next 12 months.	Expected increase of 20.78% in the next 12 months.	Expected increase of 11.27% in the next 12 months.	Expected increase of 9.55% in the next 12 months.	Expected increase of 8.4% in the next 12 months.	Expected increase of 6.86% in the next 12 months.	Expected increase of 6.63% in the next 12 months.	Expected increase of 12.3% in the next 12 months.	Expected increase of 7.5% in the next 12 months.	Expected increase of 5.4% in the next 12 months.	Expected increase of 4.4% in the next 12 months.	Expected increase of 8.0% in the next 12 months.	To grow average of 12% in next 12 months.	To grow average of 6.5% in next 12 months.	To grow an average of 5.9% in next 12 months.
<b>Hiring</b>	Expected decrease of 5.52% in the next 12 months.	Expected decrease of 3.09% in the next 12 months.	Expected decrease of .97% in the next 12 months.	Expected increase of 1.13% in the next 12 months.	Expected increase of 2.90% in the next 12 months.	Expected increase of 4.65% in the next 12 months.	Expected increase of 5.22% in the next 12 months.	Expected increase of 4.10% in the next 12 months.	Expected increase of 5.24% in the next 12 months.	Expected increase of around 4% in the next 12 months.	Expected increase of 3.08% in the next 12 months.	Expected increase of 4.04% in the next 12 months.								
<b>Price of products</b>	Expected decrease of .79% in the next 12 months.	Expected decrease of 0.04% in the next 12 months.	Expected increase of 1.71% in the next 12 months.	Expected increase of 4.68% in the next 12 months.	Expected increase of 4.56% in the next 12 months.	Expected increase of 2.77% in the next 12 months.	Expected increase of 2.30% in the next 12 months.	Expected increase of 1.85% in the next 12 months.	Expected increase of 2.07% in the next 12 months.	N/A	Expected increase of 2.53% in the next 12 months.	Expected increase of 3.33% in the next 12 months.								

**7. What areas has your company identified for cutbacks in 2009?**

	<u>Percent</u>
Hiring (decrease or freeze)	74.9 %
Capital spending	64.4 %
Conduct layoffs	44.0 %
Benefits (increase employee contribution)	38.3 %
Decrease executive perks	37.1 %
Marketing/advertising	36.2 %
IT/technology	31.7 %
Reduce debt levels and interest costs	26.9 %
Business acquisitions	19.2 %
Research and development	12.6 %
Dividend reductions or eliminations	8.4 %
We are not planning any cutbacks at this time	7.5 %
Other	7.2 %

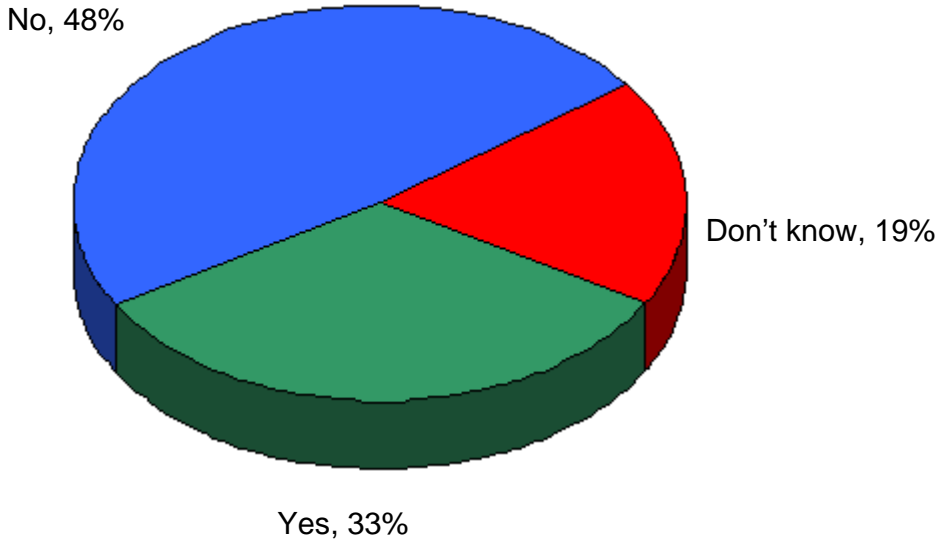
**8. As an alternative to layoffs, has your company implemented any of the following for staff? (please select as many as apply)**



Source: FEI/Baruch College

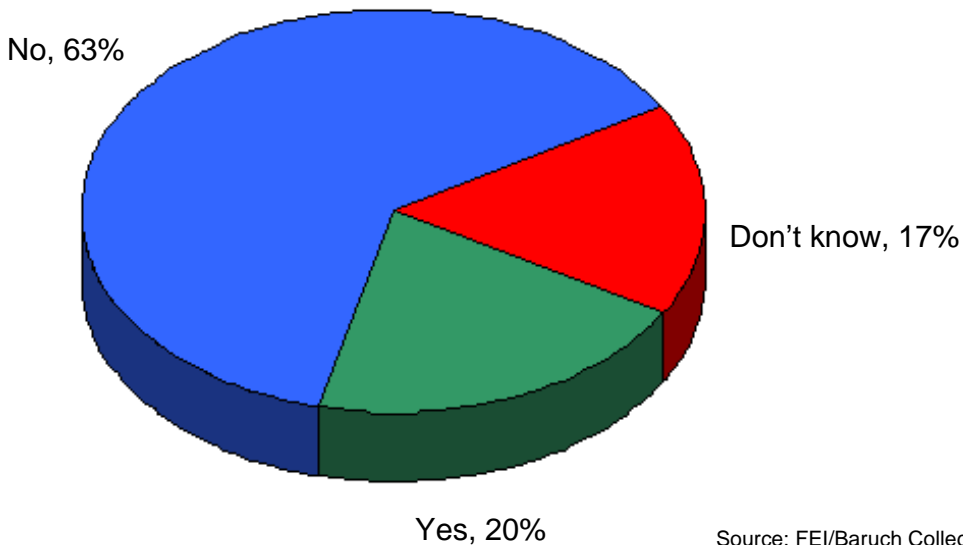
9. On February 17, 2009, President Barack Obama signed into law a \$787 billion stimulus package, a mix of spending and tax cuts to revive the economy and save millions of jobs.

**A) Do you believe this package will help the economy?**



Source: FEI/Baruch College

**B) Do you believe this package will help your company?**



Source: FEI/Baruch College

**10. Which components of the stimulus package are most important to your company? (label your choices 1 and 2)**

	1 <sup>st</sup>	2 <sup>nd</sup>	Total
Infrastructure	23.7%	10.8%	34.4%
Job developments	18.0%	9.9%	27.8%
Health care	13.2%	9.3%	22.5%
Education	3.6%	3.6%	7.2%
Law enforcement	1.2%	1.2%	2.4%
Tax relief	14.1%	17.1%	31.1%
Energy	9.0%	15.0%	24.0%
Science and technology	5.1%	9.9%	15.0%
Jobless benefits	1.2%	4.2%	5.4%

**11. When do believe indicators such as bond yields, mortgage interest rates, U.S. unemployment rate and rising GDP will collectively improve and result in the start of a recovery in the U.S. economy? (select one)**

	Percent
1st Half 2009	0.3 %
2nd Half 2009	13.8 %
1st Half 2010	47.1 %
2nd Half 2010	24.6 %
1st Half 2011	5.7 %
2nd Half 2011	3.3 %
2012 or beyond	2.7 %
Don't know	2.4 %

**12a. In the last six months, has your company violated or renegotiated covenants on any lending agreement?**

	Percent
Yes	16.6 %
No	72.0 %
Does not apply	11.4 %

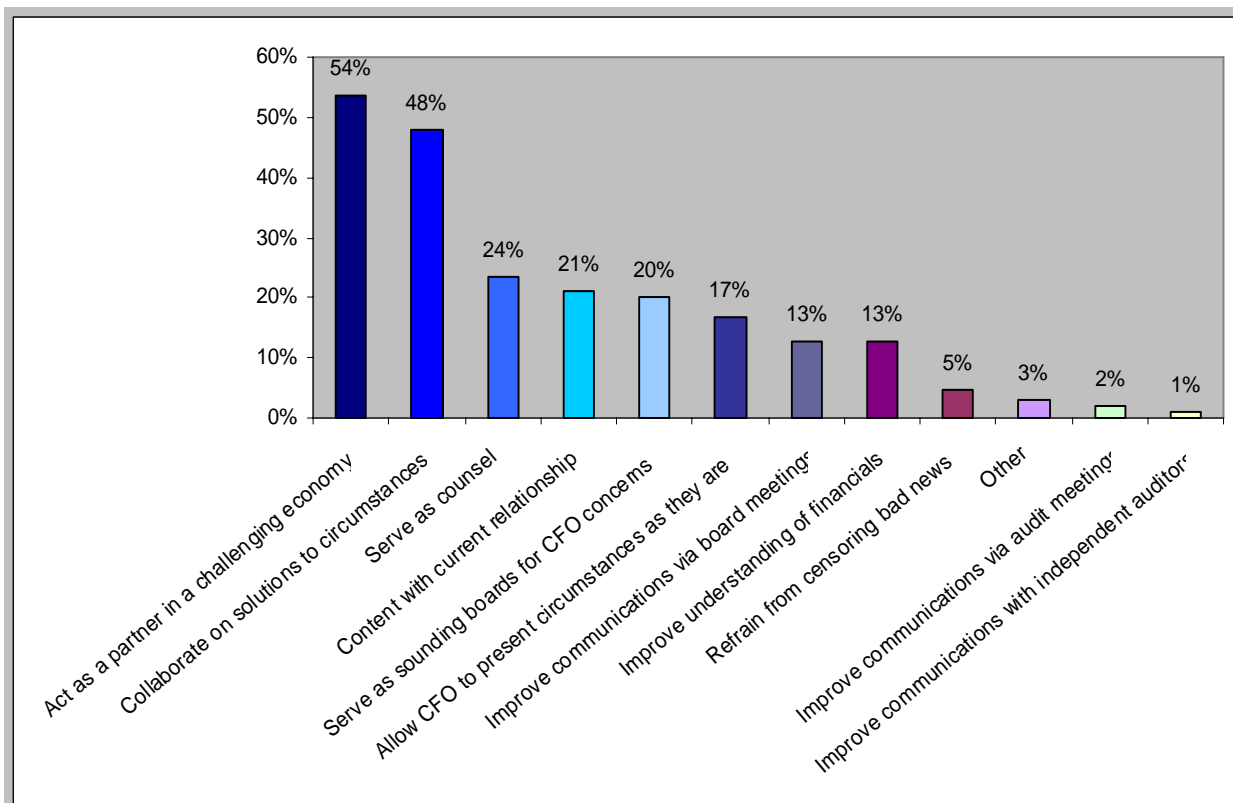
**12b. Do you expect to in the next six months?**

	Percent
Yes	13.9 %
No	74.1 %
Does not apply	12.0 %

**13. (If your company has a Board) what do you need most right now from your Board?  
(label your top three choices as 1, 2, 3)**

	1 <sup>st</sup>	2 <sup>nd</sup>	3 <sup>rd</sup>	Total
Nothing - I am perfectly content with the current relationship	18.3%	1.4%	1.4%	21.1%
To increase or improve communications and interaction with independent auditors	0.3%	0.7%	0.0%	1.0%
To collaborate more on solutions to deal with present circumstances	19.4%	16.3%	12.1%	47.8%
To allow me to present circumstances as they are	8.0%	3.1%	5.5%	16.6%
To act as my partner in exploring ways to get through a challenging economy	19.4%	22.1%	12.1%	53.6%
To increase or improve understanding of financials	5.5%	3.5%	3.8%	12.8%
Other (please specify)	1.7%	0.0%	1.4%	3.1%
To serve as sounding boards for CFO concerns	6.2%	8.3%	5.5%	20.1%
To serve as counsel to me	8.0%	6.9%	8.7%	23.5%
To refrain from censoring bad news	1.0%	2.1%	1.7%	4.8%
To increase or improve communications via board meetings	2.4%	4.8%	5.5%	12.8%
To increase or improve communications via audit committee meetings	0.3%	0.7%	1.0%	2.1%

Board relationship:	Percent
I do not have a relationship with a board	3.3 %
My company does not have a board	10.2 %



Source: FEI/Baruch College

**14. Over the last six months, has your company hired, or increased services of, any of the following outside advisors?**

	Hired	Increased services
Restructuring firm	1.2%	1.2%
Crisis firm	0.6%	0.3%
Outside counsel	3.0%	11.4%
M&A advisor	6.9%	5.1%
Reputation management	0.3%	0.0%
Public relations/marketing	3.6%	6.0%

## Company Demographics

<b>Industry</b>	<b>Percent</b>
Manufacturing	26.5 %
Retail/Wholesale	14.2 %
Other	13.3 %
Service/Consulting	11.1 %
Tech [Software/Biotech]	9.0 %
Banking/Finance/Insurance	8.7 %
Mining/Construction	5.1 %
Healthcare/Pharmaceutical	4.8 %
Communications/Media	3.9 %
Transportation/Energy	3.3 %

<b>Sales Revenue</b>	<b>Percent</b>
Less than \$25 million	18.7 %
\$25-\$99 million	27.5 %
\$100-\$499 million	29.0 %
\$500-\$999 million	12.7 %
\$1-\$4.9 billion	8.5 %
Over \$5 billion	3.6 %

<b>Number of Employees</b>	<b>Percent</b>
Fewer than 100	24.5 %
100-499	32.6 %
500-999	13.4 %
1,000-2,499	13.1 %
2,500-4,999	6.0 %
5,000-9,999	3.0 %
Over 10,000	7.4 %

<b>Headquarters</b>	<b>Percent</b>
Midwest	25.6 %
Northeast	20.4 %
Pacific	18.6 %
South Central	17.4 %
South Atlantic	12.2 %
Mountain	4.6 %
Outside U.S.	1.2 %

<b>Ownership</b>	<b>Percent</b>
Private	75.9 %
Public, Nasdaq/AMEX	12.3 %
Public, NYSE	11.7 %

<b>Foreign Sales</b>	<b>Percent</b>
0%	41.9 %
1-24%	40.4 %
25-50%	10.8 %
Over 50%	6.9 %

**About FEI**

Financial Executives International (FEI) is the leading advocate for the views of corporate financial management. Its 15,000 members hold policy-making positions as chief financial officers, treasurers, and controllers. FEI enhances member professional development through peer networking, career planning services, conferences, publications, and special reports and research. Members participate in the activities of 84 chapters, 73 of which are in the United States and 11 in Canada.

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**About Baruch**

Baruch College is a senior college of the City University of New York. The Zicklin School of Business at Baruch College is the largest and most diverse AACSB accredited collegiate school of business in the nation. Baruch has a long tradition of producing accounting and finance graduates who become leaders as CPAs and CFOs. [www.baruch.cuny.edu](http://www.baruch.cuny.edu)

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