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SURVEY: CFOS WEIGH IN ON AFFORDABLE CARE ACT, INTEREST RATES, AND STOCK MARKET OVERHEATING

Note to editors: For additional comment, see contact information at the end of this release. Watch professor John Graham discuss the results (or use this link http://youtu.be/XXX). You may also post this video on your website. Names of CFOs who took part in the survey and agreed to speak with media are available by request.

DURHAM, N.C. -- U.S. chief financial officers are concerned by several risks on the horizon -- including an overvalued stock market, interest rates that are expected to jump and a shift toward temporary and part-time workers driven by the Affordable Care Act and overall economic uncertainty.

In spite of all this, profits are expected to jump by more than 10 percent, full-time employment is anticipated to increase by two percent, and capital spending could rise by nearly five percent.

These are some of the findings from the latest Duke University/*CFO* Magazine Global Business Outlook Survey, which concluded Sept. 6. The survey has been conducted for 70 consecutive quarters and spans the globe, making it the world's longest running and most comprehensive research on senior finance executives. Presented results are for U.S. firms unless otherwise noted.

EMPLOYMENT AND AFFORDABLE CARE ACT

Full-time domestic employment is expected to rise nearly two percent in the U.S., which would reduce the unemployment rate to less than seven percent within a year. This increase comes in spite of some reluctance to hire full-time employees due to economic uncertainty and implementation of the Affordable Care Act.

Fifty-nine percent of companies report they have increased the proportion of their workforce made up by temporary and part-time workers or shifted toward outside advisors and consultants. Among these firms shifting away from full-time employment, 38 percent say the shift has occurred, in part, due to implementation of the Affordable Care Act. Another 44 percent say they are hiring temporary workers in response to extreme economic uncertainty.

"The expected two percent growth in employment is solid, given the context of long-run shifts away from full-time employees largely because of concerns about health care reform and economic uncertainty" said John Graham, Duke Fuqua School of Business finance professor and director of the survey. "Another trend that is affecting the growth in domestic employment is the hiring by U.S.-based companies of full-time employees in foreign countries. More than one-in-four U.S. CFOs say their firms have hired full-time employees in other countries, and that number is expected to accelerate."

STOCK MARKET CORRECTION, INTEREST RATES, AND CAPITAL SPENDING

Forty percent of CFOs say they believe the stock market is overvalued and will experience a downward correction. Eighty percent believe that long-term interest rates will rise by year-end, increasing by 70 basis points.

"The CFOs are telling us that the stock market is overvalued," said Campbell Harvey, a Fuqua finance professor and a founding director of the survey. "This is extraordinary because usually they argue that their own stock is undervalued. CFOs expect a correction and this correction is one of the major risk factors they face in the short-term."

In spite of interest rate risks, capital expenditures are expected to rise by nearly five percent over the next year. This indicates that near-term capital spending plans are fairly immune to interest rate levels. CFOs say if interest rates were to increase by 100 basis points by year-end, only seven percent of U.S. companies would reduce spending plans. It would take a 200 basis point increase in rates for spending plans to be curtailed at 30 percent of companies.

"The fact is that rates are still at historic low levels," Harvey noted. "Even if the benchmark bond yield increased to four percent, it would have a minimal effect on the CFOs spending and employment plans. This type of information bodes well for the Fed's tapering strategy."

CORPORATE PROFITS

In the next year, earnings are expected to increase by about 13 percent among public U.S. companies.

"Even with numerous risks and uncertainties affecting the global economy, U.S. firms have been able to protect the bottom line, operating at near-record profit levels," said Graham. "By year-end 2014, U.S. firms expect return on assets to jump above 10 percent for the first time since 2007."

BUSINESS OPTIMISM

The U.S. Business Optimism Index fell slightly to 58 on a scale from 0 to 100, just below the long-run average index value of 59. Latin American CFOs are the most optimistic in the world (61, down from 66 last quarter and 69 two quarters ago). European optimism rebounded to 56 (up from 53), followed by Asia 54 (down from 62). African (53) CFOs are the least optimistic about the economic future over the next year.

"It's encouraging that U.S. finance executives continue to have guarded confidence in their businesses, following on the burst of optimism we saw last quarter," says David Owens, director of research at CFO Publishing. "The fact that they feel able to shift more of their attention to core business concerns -- such as meeting competitive price pressures -- is, I believe, a positive step toward a return to normalcy."

OTHER RESULTS FOR EUROPE

The European outlook has improved but still has weak spots. Earnings are expected to rise nearly eight percent across all firms (including private). The return on assets is expected to jump from about eight percent over the past two years to more than 10 percent by year-end 2014. Capital spending should increase by three percent and tech spending by five percent. Manufacturing capacity is expected to increase to 79 percent over the next year.

In contrast, domestic full-time employment is expected to continue to fall. Due to high levels of economic uncertainty, a shift has occurred toward temporary and part-time workers at 55 percent of companies. Half of European firms have full-time employees outside of their home country, and at half of these firms the trend toward non-domestic employees is expected to accelerate.

Top concerns in Europe include weak consumer demand, price pressure from competitors, difficulty in maintaining profit margins, challenges in attracting and retaining qualified employees, and difficulty in planning due to economic uncertainty.

LATIN AMERICA

Employment will continue to grow rapidly in Latin America, increasing by 6.6 percent over the next year. Wages and salaries will grow even faster -- at seven percent. Half of companies report the proportion of part-time and temporary workers has increased in recent years, primarily due to economic uncertainty and to avoid the higher wages that full-time employees would earn.

Capital spending should increase by nearly six percent and tech spending by eight percent. Capital spending plans are fairly insulated from interest rate increases. Nine percent of firms say they will reduce capital spending if interest rates rise by one percent by year-end, and 30 percent would reduce spending if rates were to rise by two percent.

Revenues are expected to rise by eight percent and earnings even more rapidly -- at 9.3 percent.

Nearly two-thirds of Latin American companies have obtained long-term credit in the past three years, primarily bank loans with an average maturity of about five years.

Top worries in Latin America include concerns about consumer demand, government policies, currency risk, difficulty in maintaining profit margins, challenges in attracting and retaining qualified employees, and balance sheet weakness.

ASIA

The employment outlook varies significantly by country within Asia. Full-time domestic employment is expected to fall by 3.5 percent in India and wages will increase two percent. In China, employment will increase by four percent and wages by seven percent. In Japan, employment and wages will increase by 0.6 and 2.3 percent, respectively.

Capital spending will increase by 6.6 percent in India, eight percent in China, and by a median 10 percent in Japan.

Top concerns in Asia include weak consumer demand, government policies, price pressure from competitors, currency risk, difficulty in maintaining profit margins, challenges in attracting and retaining qualified employees, and maintaining employee morale. Finding qualified employees and maintaining morale is a more challenging issue in China than in India or Japan.

In Japan, 86 percent of CFOs favor the planned increase in sales tax (to eight percent) that is scheduled to take place in April 2014. More than 90 percent think Prime Minister Abe's economic plan -- which includes the creation of tax free trading zones, allowing online pharmaceutical sales and increased contract workers -- will spur economic growth.

AFRICA

Though optimism about their countries' economies is low among African CFOs (averaging 53 out of 100), they are relatively optimistic about their own companies' prospects (63).

Full-time employment will decrease by about one percent in Africa, while the number of temporary workers will jump by nearly four percent. Wages and salaries will increase by eight percent.

Top worries in Africa include consumer demand, currency risk, input costs, difficulty in maintaining profit margins, attracting and retaining qualified employees, liquidity management, and employee morale.

Detailed information about how African companies implement corporate sustainability is available online.

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

About the survey: This is the 70th consecutive quarter the Duke University/*CFO* Global Business Outlook survey has been conducted. The survey concluded September 6, and generated responses from 1,212 CFOs, including 530 from the U.S., 205 from Asia, 175 from Europe, 248 from Latin America, and 54 from Africa. The survey of European CFOs was conducted jointly with TiasNimbas in the Netherlands. The survey of Latin America was conducted jointly with Fundação Getúlio Vargas (FGV) in Brazil. The Japanese survey was conducted jointly with Takashi Yamasaki at Kobe University and Kotaro Inoue at Tokyo Institute of Technology. This is the second quarter for the African survey, which was conducted jointly with SAICA in South Africa. Results in this release are for U.S. companies, unless otherwise noted.

The Duke University/*CFO* Global Business Outlook survey polls a wide range of companies (public and private, small and large, many industries, etc.), with the distribution of responding firm characteristics presented in online tables. The responses are representative of the population of CFOs that are surveyed. Confidence ranges are reported in the online top line and banner tables for most of the numeric variables. A typical confidence range is less than one percentage point (e.g., capital spending is expected to increase by 4.8 percent with a 95 percent confidence range of 4.4 percent to 5.2 percent, which is a 0.8 percent confidence interval).

Among the industries represented in the survey are retail/wholesale, mining/construction, manufacturing, transportation/energy, communications/media, technology, service/consulting and banking/finance/insurance. The average growth rates are weighted by revenues or number of employees. For example, one $5 billion company affects an average as much as 10 $500-million firms would. 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 noted, all other numbers are for all companies, including private companies.

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