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CFO SURVEY: WAGE HIKES EXPECTED; STRONG DOLLAR WILL DAMPEN U.S. EXPORTS

Note to editors: Watch professor John Graham discuss the results (http://dukefuqua.com/1wVUoKU). You may embed this video in your website or blog. 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 expect more rapid wage growth at their firms to help attract and retain skilled workers and because the corporate financial outlook has finally improved, according to a global survey.

The latest Duke University/CFO Magazine Global Business Outlook Survey also explores merger and acquisition plans, top corporate concerns, the boon created by low oil prices and low interest rates, and the drag in the U.S. from an appreciating dollar.

The survey, which ended March 6, has been conducted for 76 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.

LABOR PRESSURE LEADS TO WAGE HIKES IN U.S.

About 70 percent of U.S. companies indicate that wages are starting to outpace inflation. Wage growth should be at least 3 percent in tech, services and consulting, manufacturing and health care.

"The U.S. is finally entering a new phase in the economic recovery," said John Graham, a finance professor at Duke's Fuqua School of Business and director of the survey. "The first few years of recovery were 'jobless' and, even as job growth picked up over the past year, wages remained stagnant. Finally, we are starting to see wage growth for employees that outstrips inflation. Given that CFOs expect continued strong employment growth, it is surprising that wage pressures are not even greater."

Wage growth will remain subdued at about one-third of companies that indicate employee pay will not outpace inflation. In particular, employees in retail/wholesale, transportation/energy and communications/media should expect pay hikes of less than 2 percent. The primary reasons are weak company financial performance, intense product market competition that keeps a lid on wages, and minimal labor market pressure in these industries.

STRONG U.S. DOLLAR HURTS EXPORTERS

Over the past six months the U.S. dollar has appreciated against most major currencies. The strong dollar has hurt exporters, with approximately two-thirds of firms with at least one-fourth of their total sales overseas noting a negative impact. Nearly one-fourth of these big exporters say they have reduced capital spending plans due to the strong U.S. dollar.

"We are in a midst of an ugly contest to see whether the Eurozone, Japan or Canada can depreciate the most against the U.S. dollar, and China is probably next," said Fuqua professor Campbell R. Harvey, a founding director of the survey. "U.S. exporters are being punished by these competitive depreciations and this will lead to lower profits and less employment."

Oil prices have fallen dramatically and interest rates are at historic lows in many countries. Low oil prices have benefited all industries except the energy industry and its suppliers. Low interest rates have also helped most industries, though the impact has been a net negative in banking and finance.

GLOBAL ECONOMIC OUTLOOK

U.S. CFOs are very optimistic about 2015. On a scale from 0 to 100, they rate the outlook at 65, the most optimistic expectations for the U.S. economy since 2007.

Even with this optimism, U.S. executives express pressing concerns related to governmental policies and regulations, the cost of benefits, economic uncertainty, difficulty in hiring and retaining the right employees, and data security.

In Europe, economic optimism remains below long-run averages but is increasing. Capital spending should rise by about 6 percent but fulltime employment will fall by 0.4 percent. Wages are expected to rise only 1.8 percent.

The outlook of CFOs in Asia varies by country. Chinese and Japanese companies plan little capital spending growth over the next year, while the rest of Asia on average plans growth of more than 10 percent. Employment growth will be flat throughout Asia, while wages are expected to increase by less than 3 percent in China and Japan and about 8 percent in the rest of Asia.

Optimism about the overall economy in Africa is the weakest in the world -- only 48 on a 100 point scale. Employment at the median firm will remain flat, while wages are expected to rise by more than 9 percent over the next 12 months. Median capital spending will increase 5 percent. African CFOs are worried about a host of issues, especially economic uncertainty, the reliability and cost of electricity, regulatory requirements, currency risk and difficulty hiring the right employees.

Latin American economic optimism remains low (49), especially in Brazil (39). Peru and, to a lesser extent, Chile have stronger outlooks than Brazil. Top concerns include economic uncertainty, governmental policies, currency risk and employee productivity.

MERGER ACTIVITY

Twenty-seven percent of U.S. companies expect to make an acquisition during the next 12 months. Merger activity will be especially robust in communications/media and technology, where more than half of companies expect to acquire the assets of another firm.

Merger activity should be strong in Asia, where more than 30 percent of companies expect to acquire. More than 40 percent of Chinese and more than half of Japanese firms indicate plans to acquire during the next year.

One–third of European firms plan to merge or acquire, as do 32 percent of African firms. Latin American companies will be least acquisitive, with only 13 percent expecting to acquire.

EUROPEAN QUANTITATIVE EASING VERSUS STRUCTURAL REFORMS

The European Central Bank is embarking on a bond-buying program to spur economic growth and increase inflation. Only 23 percent of European CFOs believe that the quantitative easing program will actually increase inflation. More believe that the program will benefit financial markets but not the real economy and/or that the program is not large enough or is too flawed to have a real impact.

In contrast, more than 80 percent of European CFOs think that structural reforms to the labor market and public sector would be effective. Another 70 percent believe that direct investment by the government would spur the economy.

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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 76th consecutive quarter the Duke University/CFO Global Business Outlook survey has been conducted. The survey concluded March 6, and generated responses from 1,071 CFOs, including 575 from the U.S. and Canada, 160 from Asia, 159 from Europe, 129 from Latin America and 48 from Africa. The results for Latin America are preliminary and will be updated on www.cfosurvey.org on approximately March 18. The survey of European CFOs was conducted jointly with TiasNimbas in the Netherlands (C.Koedijk@uvt.nl) and ACCA, based in the U.K. The survey of Latin America was conducted jointly with Fundação Getúlio Vargas (FGV) in Brazil (gledson.carvalho@fgv.br, klenio.barbosa@fgv.br) and with Universidad Andina Simon Bolivar in Ecuador. The Japanese survey was conducted jointly with Kobe University (cfosurveyjp@people.kobe-u.ac.j) and

Tokyo Institute of Technology, among others. The African survey was conducted jointly with SAICA (kellym@saica.co.za).

The Duke University/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 5.2 percent with a 95 percent confidence range of 4.9 percent to 5.5 percent, which is a 0.6 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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