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1Q16: A rough 2016 start for economies and equities sparks concerns

Executive summary

- **Optimists outnumber pessimists, but by lowest margin in three years:** Net optimism of +1.7 is the thirteenth consecutive net-positive reading, but it is well off last quarter's +10.7 and sits at its lowest level since 4Q12. Thirty-three percent of CFOs express rising optimism (similar to last quarter), but just over 31% now cite declining optimism (the highest level since 4Q12). CFOs voiced growing concern about the toll economic and equity market volatility will take on liquidity and on consumers' willingness to spend.
- **Sales, earnings, capital spending, and domestic hiring growth expectations markedly lower*:** Revenue growth expectations fell from 5.9% to 3.3%, only slightly above the previous survey low from 2Q15. Earnings growth expectations fell from 8.3% to a new survey low of 6.0%. Capital spending expectations fell drastically from 4.9% to just 1.7%—eclipsing the previous survey low of 4.2% by a wide margin. Domestic hiring growth expectations declined sharply to just 0.6%, well off last quarter's 1.2% and matching the survey low.
- **North America softening with little change seen in next year; Europe down slightly; China at new low:** Forty-one percent of CFOs describe North American conditions as good (55% last quarter), and 36% expect better conditions in a year (47% last quarter). Nine percent regard China's economy as good (down from 14% last quarter), and only 11% expect improvement (down from 16%). Five percent describe Europe as good (down from 8%), and 17% see it improving in a year (up from 15%).
- **Equity markets no longer overvalued; debt becoming less attractive:** Thirty percent of CFOs say US markets are overvalued (down sharply from 56% last quarter). Sixty-eight percent say debt is currently an attractive financing option (down from 80%), and 22% of public company CFOs view equity financing favorably (down from 26%).
- **Low oil prices have mixed, industry-dependent impact:** Nearly 75% of CFOs say low oil prices are impacting demand and/or profitability. Just over half cite negative impacts (Oil/Gas and Insurance cite negative profit impacts; Manufacturing and Retail/Wholesale cite negative demand impacts). Nearly 60% cite positive impacts (Manufacturing, Services, and Healthcare/Pharma cite positive profit impacts; Manufacturing and Power/Utilities cite positive demand impacts). Some CFOs cited both positive and negative impacts.
- **About half of surveyed companies are politically active:** Almost half of CFOs said their companies are politically active (more in supporting causes than candidates), but there is high variability by industry.
- **OECD's Base Erosion and Profit Shifting (BEPS) initiative not large on CFOs' radar screens:** Just 18% say they have already planned for the initiative, and only 15% say they are currently evaluating its impact.
- **Fair Labor Standards Act (FLSA) changes getting attention from US CFOs:** FLSA changes (expected to raise the minimum salary and eliminate exemptions from overtime) are getting significant attention from US CFOs, with nearly half saying they have already planned for the impacts or plan to do so.
- **Trade agreements expected to have little impact:** Few CFOs expect strong impacts from either the Trans-Pacific Partnership (TPP) or the Transatlantic Trade and Investment Partnership (TTIP). Still, there are significant country and industry differences, and the fact that many CFOs voiced no opinion suggests the jury may still be out.
- **Companies becoming more aggressive in de-risking retirement obligations:** Use of aggressive tactics has continued to increase since we last asked in 4Q14. This quarter's findings suggest rising use of voluntary lump-sum payouts, retiree medical buy-outs, and plan terminations.
- **CFOs' key 2016 contributions to their companies and finance organizations show some common themes:** Company-level contributions spanned the domains of financing, investment, operations, and valuation, with a pervasive theme around helping their company stay focused and perform well in tough business conditions. Finance organization contributions were also varied, but with a common focus on upgrading finance's ability to acquire, develop, and deploy talent.

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*Averages have been adjusted to eliminate the effects of stark outliers.