

1Q19 Highlights: Anticipating a slowdown (but not a recession)

- CFOs' assessments of the current North American, European, and Chinese economies declined.
- Own-company optimism rebounded but remains at the third-lowest level in the last three years.
- Expectations for revenue, earnings, hiring, and wages declined (only capex rose); all metrics sit below their two-year averages.
- CFOs overwhelmingly expect a US downturn by the end of 2020, with a slowdown seen as much more likely than a recession.
- A minority of CFOs say they have detailed plans for a downturn; actions focus on discretionary spending and headcount.
- CFOs rate trade policy the most important federal policy area, with infrastructure investment a distant second.
- Most CFOs cite a formal D&I strategy; roughly half say it is known throughout their company and part of their talent brand.
- Companies are using a variety of programs to promote D&I; flexible work arrangements are the most common.
- To promote equitable advancement, CFOs cite diverse candidate slates, merit-based decisions, and hiring diverse senior leaders.
- The average number of CFO direct reports is 7.60, with an average diversity of about 40% (women and/or minority).

How do you regard the status of the North American, European, and Chinese economies? Perceptions of North America declined, with 80% of CFOs rating current conditions as good (down from 88%), and 28% expecting better conditions in a year (same as last quarter). Perceptions of Europe declined to just 16% and 8%; China slid to 20% and 16%.

What is your perception of the capital markets? Seventy percent of CFOs say debt financing is attractive (up from 62%). Equity financing attractiveness fell for both public (from 35% to 25%) and private (37% to 27%) company CFOs. Just 46% now say US equities are overvalued—a three-year low.

Overall, what risks worry you the most? CFOs express even stronger concerns about trade policies/tariffs, economic risks/slowdowns, and US political turmoil. Talent is again the dominant internal concern.

Compared to three months ago, how do you feel about the financial prospects for your company? The net optimism index rebounded from last quarter's dismal +3 to +16—better, but still the third-lowest level in three years. Thirty-two percent of CFOs express rising optimism (26% last quarter), and 16% express declining optimism (23% last quarter).

What is your company's business focus for the next year? CFOs indicate a bias toward revenue growth over cost reduction (51% vs. 25%), investing cash over returning it (46% vs. 19%), current offerings over new ones (40% vs. 36%), and current geographies over new ones (64% vs. 12%).

How do you expect your key operating metrics to change over the next 12 months? YOY revenue growth expectations fell from 5.5% to 4.8%; earnings growth slid from 7.3% to 7.1%; capital spending rose from 5.0% to 5.9%; and hiring fell from 3.2% to 2.1% (all sit below their two-year averages). Dividend growth declined from 4.5% to 3.9%, the lowest level since 4Q17.

Where does your company stand with respect to downturn planning? Nearly 85% of CFOs say they expect a US downturn by the end of 2020, and they overwhelmingly expect a slowdown rather than a recession. Those expecting a downturn were most likely to cite US trade policy, business and credit cycles, and the impacts of slowing growth in China and Europe on the US economy. A minority say they have detailed defensive or opportunistic plans; the most common expected defensive actions involve reducing discretionary spending and limiting or reducing headcount.

In which policy areas would your company like to see Washington provide clarity/change first? CFOs overwhelmingly rate trade policy the most important policy area, with infrastructure investment a distant second.

How would you characterize your company's approach to Diversity and Inclusion (D&I)? The majority of CFOs cite a formal D&I strategy; about half say the strategy is known throughout their company and embedded in their talent brand.

What actions is your company taking to promote D&I? Eight of the nine D&I tactics presented were selected by at least 40% of CFOs. Implementation of flexible work arrangements was the most-selected tactic.

What has your company done to provide equitable opportunities for advancement? CFOs cite consideration of diverse slates of candidates, ensuring merit-based decisions, and hiring diverse leaders into senior roles.

How many people report directly to you? The average is 7.60, with about 40% diversity (i.e., women and/or minority).

What have you have done to promote D&I within finance? Tactics for inclusion of women focus largely on helping them advance in their careers; those for inclusion of minorities focus largely on bringing more into the company.

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

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