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conducted by Financial Executives International (FEI) and the Zicklin School of Business at Baruch College .

**Isaac M. O'Bannon** • Mar. 12, 2014

Chief Financial Officers in the U.S. are starting 2014 with increased optimism when it comes to the economy and their businesses, according to the results of a new survey conducted by Financial Executives International (FEI) and the Zicklin School of Business at Baruch College .

However, while CFOs are still faced with concerns about healthcare costs and global issues like the stability of the Eurozone, their optimism toward hiring, wages and overall U.S. employment remains unchanged.

The “CFO Outlook Survey,” which surveys CFOs at public and private businesses in the U.S. on their economic and business confidence and expectations, found that the financial executives are notably more confident now than late last year. Their optimism about the U.S. economy saw the biggest improvement, reflected by the quarterly optimism index which saw more than ten percent growth over the previous quarter, jumping almost six points to 62.0 (from 56.2 in Q3).

The index for U.S. CFOs toward their own businesses increased two points to 67.7 (from 65.1 in Q3). Respondents are anticipating a 17 percent increase in net earnings over the next 12 months, which is offset by the 11 percent increase they expect in healthcare costs. CFOs also expect a ten percent increase in both technology spending and revenue.

Businesses also appear to be making plans to unleash capital investment, notably expecting an eight percent increase in capital spending compared to their projections for a two percent increase last quarter. However, revenue growth topped CFOs' list of

business challenges for 2014 (38% selected this as their first choice), followed by

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Looking beyond domestic conditions, U.S. CFOs' confidence in the global economy remains steady, raising the index less than half a point to 54.6 (from 54.3 in Q3). However, with increasing turmoil among several European countries in the past month, CFOs sustained their concern over the future of the Eurozone.

When asked to rate their concern on a scale of one (not concerned) to five (very concerned), this quarter more than half of all U.S. CFOs (70%) selected a "three or higher." Furthermore, over a quarter (27%) of respondents do not anticipate a recovery of the European economy will begin before 2015. Twenty-eight percent of CFOs believe northern Europe is in the midst of a recovery, but southern Europe is not, compared with only 15 percent who believe the entire Eurozone is already in the midst of a recovery.

"Optimism regarding the U.S. economy is the highest our survey has seen in two years, and despite some challenges, CFOs have a positive outlook for their growth opportunities for 2014," said Linda Allen, Professor of Economics and Finance, Zicklin School of Business at Baruch College. "In contrast to the dramatic increase in optimism regarding the U.S. economy, however, CFOs' outlook for the global economy is relatively stagnant, reflecting economic uncertainty and political unrest in many regions abroad. CFO sentiment towards the economic recovery of the Eurozone in particular has been slow to pick up, but has been gradually gaining traction over the past two years."

Looking forward, CFOs remain optimistic about the outlook for the workforce. On average, respondents expect the U.S. unemployment rate will remain steady, continuing to average around 6.6 percent one year from now. More than half (55%) believe that wage levels are on the rise and a comparable percentage (59%) are planning to hire additional employees at their company during the first half of 2014.

Similar to previous quarters, respondents are most commonly seeking experienced

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Nineteen percent said they would hire fewer employees and 16 percent would look for new ways to outsource low-skill jobs.

“U.S. CFOs' outlook and concerns about employment has always been a central part of our polling, and the trends in this quarter's results are indicative of the progress in broader U.S. economic growth,” said Marie N. Hollein, President and CEO of Financial Executives International. “While the unemployment rate has eased, and CFOs continue to report on plans to hire and retain talent, more U.S. CFOs see healthcare costs as one of their top business concerns. Given CFOs' expectations of continued increases in healthcare costs, we continue to believe this will be one of the closely watched areas for American businesses.”

When asked which of the President's State of the Union proposals Congress should pass in 2014, the majority of CFOs (72%) favored a tax reform that lowers rates for U.S. corporations, but closes loopholes, especially for those using off-shore tax havens. Action by Congress to pass legislation that protects companies and inventors against patent trolls was also recommended by 60 percent of respondents.

Other findings from the CFO Quarterly Global Outlook Survey include the following:

**Inflation/Tapering:** One year from now, the majority of CFOs anticipate the inflation rate will increase to 2.57. Respondents remain only moderately concerned about inflation, with 46 percent of respondents rating their concern at a level “three or higher” on a scale of one to five. Over a third (38%) think that tapering will increase inflation, while 55 percent believe inflation will not change as a result of tapering. Only eight percent of respondents believed the result would be lower inflation.

**Interest Rates:** Almost all U.S. CFOs expect interest rates to be higher over the next year. On average, respondents to the survey expect interest rates to increase by less

than one percent (0.76%) over the next six months, and increase by 1.36 percent one

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obligations. Forty-two percent of CFOs reported they are spending cautiously compared to 31 percent who are making ambitious investments in capital expenditures. More than two thirds of those making capital expenditures are focusing on technology (71%).

**Cyber-Attacks:** Three quarters of CFOs revealed they are currently taking steps to protect against cyber-attacks, most notably upgrading security software and/or encryption protections (71%) and establishing off-site backup systems/plans (67%). Given the increased number of major companies and organizations that have faced cyber-attacks, 67 percent of CFOs are considering increasing their budgets toward improving cyber security. Almost one fifth of respondents (19%) reported experiencing a cyber-attack in the last year. Almost half of those attacks (48%) were foreign sourced. However, the majority of these incidents (61%) categorized the cyber-attack between “not at all severe” or “moderately severe” and only four percent involved a data breach. Furthermore, none of the attacks reported lasted for more than several hours or several days.

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