

# CFOs: Recession Possible in 2019

**Nearly half of U.S. CFOs think the nation's economy will enter a recession by the end of 2019, finds the fourth-quarter Duke/CFO Outlook Survey.**

Almost half (49%) of U.S. CFOs think the United States will be in recession by the end of 2019, with 82% believing a recession will start by the end of 2020, according to the latest quarterly Duke University/CFO Global Business Outlook survey.

The global economy has been on a growth streak for nearly a decade, particularly in the United States. Unfortunately, this long growth streak appears to be nearing its end.

"The end is near for the near-decade-long burst of global economic growth," said John Graham, a finance professor at Duke's Fuqua School of Business and director of the survey. "The U.S. outlook has declined; moreover, the outlook is even worse in many other parts of the world, which will lead to softer demand for U.S. goods."

Next year, CFOs expect sub-3% growth for the U.S. economy, with median capital spending growth of 2% and median employment growth of 3%. (See the chart for weighted average expectations for 12-month growth).

"Their recession projections suggest CFOs believe most of this growth will occur early in the year," Graham said. "This means there is still time for the government to use the tools at their disposal to soften the fall."

In the worst-case scenario forecast by the surveyed CFOs, annual real growth in the United States will be a meager 0.6%. In this scenario, CFOs expect their capital spending to fall by 1.3% and for hiring to remain flat.

"CFOs are getting ready for a recession in the next 18 months," said Campbell Harvey, a founding director of the survey.

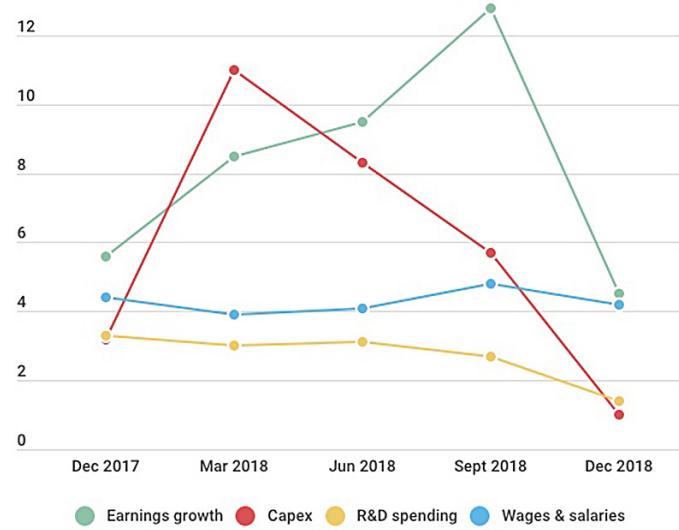
"All of the ingredients are in place: a waning expansion that began in June 2009 — almost a decade ago — heightened market volatility, the impact of growth-reducing protectionism, and the ominous flattening of the yield curve, which has predicted recessions accurately over the past 50 years."

The biggest concern noted among CFOs is difficulty hiring and retaining qualified employees, though the 47% of CFOs calling it a top-four concern is down six percentage points from the two-decade high last quarter. Other top concerns include the cost of employee benefits, government policies, economic uncertainty, and rising wages and salaries.

The survey's CFO optimism index has historically been an accurate predictor of future hiring and overall GDP growth.

## CFOs' Dampened Spirits

Finance chiefs have dialed down their 12-month projections for growth in earnings, capital spending and R&D investment.



Percentages are for expected growth in the next 12 months.

Source: Duke University/CFO Global Business Outlook survey, Q4; based on the responses of 212 U.S. companies.

The optimism Index for the U.S. economy was at an all-time high of 71 last quarter. It slipped to 66 this quarter and CFOs' optimism about their own firms' financial prospects dropped two points to 69 on a 100-point scale. Both indices were at all-time highs earlier this year.

Globally, CFOs have become pessimistic. Eighty-six percent of Canadian CFOs believe their countries will be in recession no later than year-end 2019, as do 67% of CFOs in Europe.

Canadian optimism was steady at 58 on a 100-point scale. Optimism in Europe dropped a point to 57, after falling 10 points to 58 last quarter. Optimism is at 59 in the U.K., 56 in France, and 50 in Italy. Over the next year, capital spending and employment in Europe are both expected to grow about 2%.

Among European CFOs, the top concern is attracting and retaining qualified employees, followed by economic uncertainty and government policies. Currency risk and employee productivity were also top-five worries.

The fourth quarter Duke/CFO survey ended December 7. It generated responses from more than 500 CFOs, including 226 from North America.

Source: Lauren Muskett, [www.cfo.com](http://www.cfo.com)