



*Association for
Financial Professionals*

**AFP 2005 MID-YEAR
BUSINESS OUTLOOK
SURVEY**

Key Results

June 2005

AFP 2005 Mid-Year Business Outlook Survey

U.S. financial professionals believe that the U.S. economy will continue to grow at a moderate pace for the remainder of 2005, according to a survey conducted by the Association for Financial Professionals. Further, many survey respondents indicate that their company is enjoying improved access to credit and that their organizations (especially those with annual revenues less than \$250 million) expect to expand their U.S. workforce in the coming year. While financial professionals are optimistic about business conditions, they note several threats to future economic growth; including, growing energy costs, higher interest rates, the fluctuating value of U.S. Dollar, and rising health care costs.

Financial professionals are in a unique position as they not only must observe business conditions that affect their business and make assumptions on how these conditions will change in the short and immediate term, but they make critical business decisions—including those concerning corporate borrowing and business investment—based on these observations and assumptions. Working in a wide range of industries and in public or private organizations of varying sizes, financial professionals provide an excellent indicator of future business conditions.

Key Results

GDP Growth and the Factors that Affect Future Growth

Financial professionals remain optimistic about 2005 business conditions. Three out of five financial professionals (59 percent) expect business conditions to remain “about the same” through the remainder of 2005. Thirty-one percent expect conditions to improve while ten percent expect business conditions to deteriorate during the rest of 2005.

Back in December 2004, financial professionals were a bit more optimistic of the future. Fifty-four percent of participants to the December 2004 survey expected improving business conditions during 2005 while 37 percent believed that business conditions would be the same in 2005 as they were in 2004.

Expected Change in Business Conditions During Remainder of 2005

(Percentage Distribution)

Improve	31%
About the same	59
Weaken	10

Four out of five survey respondents see GDP continuing to grow at a moderate pace—2 to 3.9 percent—for the remainder of 2005. As a matter of perspective, GDP grew at annual pace during the first quarter of 2005 at 3.8 percent. Fifteen percent of financial professionals expect weaker GDP growth (or even contraction) while five percent expect stronger GDP growth of greater than 4 percent.

Expectations for 2nd Half 2005 GDP Growth
(Percentage Distribution)

Strong (4 to 5.9%)	5%
Moderate (2.0 to 3.9%)	81
Weak (no growth to 1.9%)	14
GDP will contract	1

While financial professionals are generally optimistic about business conditions in the near-term, they believe there are several factors that could threaten future economic growth. Eighty-three percent of financial professionals identify the rising costs of energy as a threat to future economic growth—perhaps not surprising given the dramatic increase in the price of crude oil over the past two years (and especially over the past few weeks). Financial professionals also express concern over the expected increase in interest rates (61 percent), the fluctuating value of the U.S. Dollar (52 percent), looming increases in health care costs (49 percent), and the ability of consumers to continue their strong level of spending (46 percent). At least a quarter of survey respondents also express concern over the growing federal budget deficit (37 percent), the U.S. trade deficit and competition from abroad (31 percent), and inflation (26 percent).

Factors that Will Affect Overall Business Conditions Over the Next 12 Months
(Percentage Distribution)

Energy costs	83%
Interest rates	61
Value of U.S. Dollar	52
Health care costs	49
Consumer demand	46
Federal budget deficit	37
Trade deficit	31
Competition from abroad	31
Inflation	26
Terrorism fears	19
Dramatic decline in house values	8

Financial professionals believe that their businesses will be facing increased costs over the next 12 months. Nine out of ten survey respondents believe both interest rates and health care costs will continue to increase, while 79 percent forecast continued increases in energy costs. Further, while 62 percent of financial professionals believe inflation will increase over the next year, only a quarter of survey participants believe their own company will gain increased pricing power over the same time period. Most survey respondents believe the trade deficit will continue to increase (74 percent) as competition from abroad (62 percent) continues to impact their business.

Expected Change Over Next 12 Months
(Percentage Distribution)

	Increase significantly	Increase slightly	No change	Decrease slightly	Decrease significantly
Interest rates	6%	84%	8%	1%	*
Health care costs	30	59	10	*	*
Energy costs	21	58	12	8	*
Federal budget deficit	18	55	17	9	*
Trade deficit	12	62	19	8	*
Competition from abroad	14	48	35	3	*
Inflation	3	59	35	3	*
Business investment	2	49	36	13	*
Consumer demand	2	27	40	26	2
My company's pricing power	*	26	56	15	3

Foreign Exchange

Financial professionals are divided in their expectations on whether foreign currencies will gain or lose value against the U.S. Dollar. Half of respondents expect the Euro to gain value against the U.S. Dollar in the next six months—12 percent expect the Euro to gain more than five percent while 38 percent expect the Euro to grow by less than five percent—while half expect a continuation of the recent decline in the Euro's value. Fifty-six percent of financial professionals expect the Yen and the Pound to increase against the U.S. Dollar while 52 percent expect the Canadian Dollar to gain against the U.S. Dollar. The vast majority of survey respondents believe that, regardless of whether the U.S. Dollar gains or loses value, these currencies will remain within five percent of its current value.

Expected Change in Value of Currency Versus U.S. Dollar Over Next Six Months
(Percentage Distribution)

	Increase by at least 5%	Increase by 1 to 5%	Decrease by 1 to 5%	Decrease by at least 5%
Euro	12%	38%	43%	7%
Pound	9	47	42	2
Yen	12	44	41	3
Canadian dollar	5	47	47	2

In recent months, commentators have called on the Chinese government to revalue the Yuan, currently pegged at about 8.27 Yuan per U.S. Dollar. Most financial professionals expect the Chinese at least a modest revaluation of the Yuan. Fifty-four percent expect a modest revaluation of the Yuan within the next year, while four percent expect a “significant” revaluation. Fifteen percent expect a more radical shift by the Chinese government—allowing the value of the Yuan to float. A quarter of respondents believe, however, that the Chinese government will not allow for any revaluation of the Yuan over the next year.

Expectations of China Revaluating the Yuan or Allowing It to Float
(Percentage Distribution)

Modest revaluation of Yuan	54%
Significant revaluation of Yuan	4
Allow Yuan to float	15
No change in value expected	27

Regardless of the decision of the Chinese government, financial professionals share differing views on the ultimate impact resulting of a possible revaluation of the Yuan. While 48 percent of survey respondents believe a revaluation of the Yuan would have a positive impact on the U.S. trade deficit, 35 percent actually believe such a move would be detrimental to the trade deficit. Perhaps further diminishing the impact of a possible Yuan revaluation is the belief of 80 percent of respondents that a revaluation of the Yuan would have little impact on their company's own business.

Expected Impact of a Revalued Yuan on U.S. Trade Deficit and Own Business
(Percentage Distribution)

	U.S. trade deficit	On my business
Positive impact	48%	11%
Negative impact	35	9
No impact	17	80

Access to Credit

Financial professionals report that their company's access to credit remains has remained strong over the past six months. Forty-two percent of respondents indicate that their company's access to short-term credit has increased over the past six months, while 38 percent indicate increased availability for long-term credit. Only two percent of companies had less access to short-term credit while just one percent of respondents indicate that their access to long-term credit has decreased.

These figures are stronger than reported in the December 2004 survey. In that survey, 31 percent of companies indicated that their access to short-term credit had improved while 31 percent of companies reported improved access to long-term credit.

Change in Access to Credit Over Past Six Months
(Percentage Distribution)

	Short-term credit	Long-term credit
Increased availability	42%	38%
No change in availability	56	61
Decreased availability	2	1

Few financial professionals believe their company's access to credit will deteriorate over the next 12 months. Only four percent of survey respondents believe their company's access to short-term credit will decline over the next year while just five percent of respondents believe that their company will have greater difficulty acquiring long-term credit.

Overall, seventy-one percent of financial professionals expect little change to their company's access to short-term credit while 75 percent expect their company's access to credit will not change over the next year. A quarter of respondents (24 percent) believe that their organization will have greater access to short-term credit while 20 percent expect that their company's access to long-term credit will improve.

Expected Change in Access to Credit Over Next 12 Months
(Percentage Distribution)

	Short-term credit	Long-term credit
Increased availability	24%	20%
No change in availability	71	75
Decreased availability	4	5

Twenty-five percent of financial professionals indicate their company plans to increase its outstanding short-term debt over the next 12 months. At the same time, however, 29 percent of respondents indicate that their company will reduce the amount of short-term debt that it has outstanding.

A third of companies will increase its outstanding long-term debt over the next 12 months, according to financial professionals. Forty-three percent of survey respondents expect their company will maintain its current level of long-term debt while 24 percent indicate that their company will decrease the amount of outstanding long-term debt.

Expected Change in Amount of Outstanding Debt Company Will Have Outstanding 12 Months from Now
(Percentage Distribution)

	Short-term debt	Long-term debt
Increase	25%	33%
Remain the same	46	43
Decrease	29	24

Employment

Continued confidence in the business conditions is also reflected in the decision to hire more employees. Forty-percent of financial professionals report that their company plans to increase its U.S. workforce over the next year. Thirty-seven percent expect that their company will maintain its workforce at current levels while 16 percent report that their company intends to shrink its U.S. workforce in the coming year.

Most of the expected employment growth is centered among relatively smaller companies. Fifty-four percent of companies with annual revenues below \$250 million expect to expand its U.S. workforce while just five percent of similarly sized companies expect to shrink its U.S. employment. As a comparison, twenty-six percent of respondents from companies with annual revenues greater than \$5 billion expect to expand its U.S. workforce while the same percentage of large companies expect to decrease the number of workers that its employs in the U.S.

**Likelihood of Company Increasing or Decreasing
the Number of Workers it Employs in the U.S. Over the Next Year**
(Percentage Distribution)

Increase	40%
Stay the same	37
Decrease	16
Don't know	7

Methodology

On June 13 2005, AFP sent a 14 question survey to 3,500 of its corporate practitioner membership that asked about their thoughts and expectations of business conditions. Through June 24th, AFP received 316 responses generating a response rate of approximately ten percent (adjusted for undelivered email). The responses of the survey are the basis of this report.