



*Association for  
Financial Professionals*

# **2008 AFP BUSINESS OUTLOOK SURVEY**

**Key Results**

December 2007

## 2008 AFP Business Outlook Survey

While the U.S. economy will weaken over the next 12 months, it will continue to grow in 2008. That is the view of U.S. financial professionals based on results of a recent survey conducted by the Association for Financial Professionals (AFP). In addition, more than a third of survey respondents expect their organizations will expand their U.S. workforce in the coming year. Financial professionals also identified a number of factors that they feel could threaten continued economic growth including the value of the U.S. dollar, volatile energy costs, and declining home prices.

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

### Key Results

#### *GDP Growth and the Factors that Affect Growth*

After a year that featured highly volatile energy prices, a deteriorating housing market, a falling U.S. dollar, and a sub-prime mortgage crisis that impacted other parts of the credit market during the late summer and fall, financial professionals are less optimistic about business conditions in 2008. Forty-nine percent of financial professionals expect business conditions to weaken during 2008, while 37 percent expect business conditions to remain the same. Fourteen percent of respondents, however, expect the economy to pick up in 2008.

Financial professionals' sanguine business outlook for 2008 is in dramatic contrast to their predictions in previous years. In the December 2006 business conditions survey, 52 percent of financial professionals expected business conditions in 2007 to mirror those of 2006, while 41 percent of respondents to the December 2005 survey believed that business conditions would be the same in 2006 as they were in 2005.

#### **Expected Change in Business Conditions in 2008** (Percentage Distribution)

Improve	14%
About the same	37
Weaken	49

Financial professionals expect gross domestic product (GDP) will grow modestly in 2008, with the median prediction at 2.5 percent. A little more than a third of survey respondents (36 percent) expect GDP to grow between two and three percent during 2008, while 24 percent expect GDP to grow by only 1 to 1.9 percent. Four percent of respondents predict the economy will contract during 2008. For perspective, GDP grew at annualized pace of 4.9 percent during the third quarter of 2007 and was up 2.8 percent from the same time last year.

**Expectations for 2008 GDP Growth  
(Percentage Distribution)**

5.0% and above	2%
4.0-4.9%	6
3.0-3.9%	24
2.0-2.9%	36
1.0-1.9%	24
0.0-0.9%	3
Economy will contract	4

Economic growth during the next year will depend on a number of factors including whether inflation remains in check if energy prices continue to rise. During 2007, rising energy prices did engender concerns regarding the impact inflation could have on the U.S. economy. Still, consumer prices rose “only” 3.5 percent in October 2007 (on a year-over-year basis), with the core CPI (a price index that excludes the volatile food and energy components from the analysis) rising just 2.1 percent year over year. The fact that inflation was held in relative check prompted the Federal Reserve to cut its Fed Funds target several times during the second half 2007 in response to the sub-prime credit crisis.

In spite of relatively tame inflation in 2007, financial professionals still expect consumer prices to continue to increase during 2008. Forty-five percent of respondents expect CPI to grow between 3.1 and 4.0 percent while another eight percent expect consumer prices to rise by more than four percent. Thirty-one percent of financial professionals expect CPI to grow by between 2.1 and 3.0 percent while 16 percent expect the growth rate in the CPI to be below 2.0 percent.

**Expectations for 2008 CPI Growth  
(Percentage Distribution)**

More than 4.0%	8%
3.1-4.0%	45
2.1-3.0%	31
1.1-2.0%	10
0.1-1.0%	4
No/Negative Growth	2

Forty percent of financial professionals believe that inflation *is* a factor that will affect business conditions during 2008, but inflation is not the biggest area of concern. Eighty-two percent of financial professionals are paying closer attention to the declining value of the U.S. dollar. Seventy-three percent of respondents expressed concern about the impact sharply rising energy costs will have on the economy; 70 percent believe the troubles in the housing market could ripple further through the economy.

Other areas of concern include:

- Consumer’s access to credit (49 percent)
- Rising health care costs (46 percent)
- Availability of corporate credit (44 percent)
- Consumer demand (43 percent).

**Factors Affecting Overall Business Conditions Over the Next 12 Months**  
(Percentage of Respondents)

	Dec 2007 Survey	Dec 2006 Survey	Dec 2005 Survey
Value of the U.S. dollar	82%	59%	46%
Volatile energy costs	73	68	67
Declining home prices	70	#	#
Access to consumer credit	49	#	#
Rising health care costs	46	58	58
Access to corporate credit	44	#	#
Consumer demand	43	51	46
Inflation	40	40	39
Competition from abroad	34	42	37
Federal budget deficit	31	36	40
Trade deficit	25	31	27
Business investment	23	25	25
Rising interest rates	19	39	75
Terrorism (or fear of terrorism)	15	31	28

#-not asked in either 2005 or 2006 surveys

Most financial professionals believe that we have not yet seen the end of rising energy prices. Thirty percent of financial professionals believe that energy prices will increase significantly during 2008 while 56 percent believe energy prices will increase but only “slightly.”

Similarly, most respondents believe that home prices will continue to decline in 2008. Nearly three out of five financial professionals (58 percent) expect home prices to decline “slightly” next year while 22 percent expect significant home price declines. Only nine percent of financial professionals are expecting a rebound in home prices during 2008.

Trade issues remain on the radar of many financial professionals. Two-thirds of financial professionals (67 percent) expect competition from abroad to increase during 2008. At the same time, 59 percent believe that the trade deficit will reverse its declining 2007 trends and begin to increase during the New Year. Many financial professionals also expect dramatic drops in the value of the U.S. dollar to continue. Sixty-three percent of respondents believe the U.S. dollar will continue to decline against the Euro in 2008, while 54 percent expect the dollar to decline against the Yen.

While 64 percent of financial professionals expect the growth rate in inflation to increase slightly over recent trends, 59 percent of survey respondents believe that interest rates will continue to drop during 2008. Finally, competitive pressures will give few organizations the opportunity to increase prices unilaterally. Twenty-five percent of financial professionals expect that their organizations will have greater pricing power in 2008 while another 25 percent expect their pricing power to decrease.

**Expected Change Over Next 12 Months**  
(Percentage Distribution)

	Increase significantly	Increase slightly	No change	Decrease slightly	Decrease significantly
Energy costs	30%	56%	8%	6%	*
Competition from abroad	17	50	23	10	*
Trade deficit	12	47	17	21	3
Growth rate of inflation	6	64	18	12	1
Interest rates	1	26	14	55	4
Business investment	1	24	34	37	4
My organization's pricing power	1	24	50	23	2
Value of U.S. dollar versus Euro	1	23	13	55	8
Value of U.S. dollar versus Yuan (Renminbi)	1	17	34	44	4
Value of U.S. dollar versus Yen	*	21	25	49	5
Home prices	*	9	11	58	22

*Access to Credit*

Financial professionals report that the turmoil in credit markets, resulting in part from disruptions in the sub-prime mortgage sector, has had some impact on corporate credit. In addition, most financial professionals believe that credit markets may suffer more disruption. Sixty-six percent of financial professionals believe the worst of the credit turmoil is not yet over, while only 15 percent of respondents think the opposite. In late October 2007, AFP surveyed attendees to its Annual Conference about the same issue. In that on-site survey, 62 percent thought the turmoil would continue while 17 percent thought the worst had past.

**Credit Turmoil Resulting from the Sub-Prime Crisis**  
(Percentage Distribution)

	December 2007 Survey	October 2007 Survey at AFP Annual Conference
Believe the worst is not over	66%	62%
Believe the worst is over	15	17
Not sure	19	21

Even with disruptions rippling through the credit markets during the late summer and fall of 2007, most financial professionals report that their organization's access to credit has remained stable over the past six months. Seventy-three percent of respondents indicate that there has been no change in their organization's access to short-term credit over the past six months, with 77 percent reporting the same in regards to long-term debt. Seventeen percent of respondents indicate that their organization's access to short-term credit has actually *increased* over the past six months, with 14 percent reporting increased availability for long-term credit. Only ten percent of organizations currently have less access to short-term credit; similarly, nine percent of respondents indicate that their access to long-term credit has decreased over the past six months.

These figures represent a shift from perceived conditions a year ago. In the 2006 business conditions survey, 35 percent of companies indicated that their access to short-term credit had improved while 30 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	17%	14%
No change in availability	73	77
Decreased availability	10	9

Despite the shake-up in credit markets, most organizations have not experienced a change in credit terms and covenants over the past year. Sixty-eight percent of financial professionals indicate that their organization's covenants and credit terms did not change in 2007, while 19 percent report that covenants/credit terms tightened. In addition, 40 percent of survey respondents feel that their organization is now subject to a "somewhat" higher cost of credit as a result of the credit market turmoil, while seven percent indicate that their organization is subject to *significantly* higher cost of credit. Only 13 percent of respondents report that their organizations saw their covenants and credit terms ease during 2007.

**Change in Covenants/Credit Terms in 2007**  
(Percentage Distribution)

Terms have tightened	19%
No change in terms	68
Terms have eased	13

Relatively few financial professionals believe their organization's access to credit will deteriorate in 2008, even in a tightened credit market environment. Only ten percent of survey respondents believe their organization's access to short-term credit will decline over the next year, while 12 percent expect the same for long-term credit. In last year's survey, only two percent of respondents expected their organization's access to credit would deteriorate in 2007.

Overall, 71 percent of financial professionals expect to see little if any change in their organization's access to short-term credit; 70 percent expect their organization's access to long-term credit also will not change over the next year. Nineteen percent of survey respondents believe that their organization will have greater access to short-term credit while 18 percent expect that their organization's access to long-term credit will improve.

**Expected Change in Access to Credit in 2008**  
(Percentage Distribution)

	Short-term credit	Long-term credit
Increased availability	19%	18%
No change in availability	71	70
Decreased availability	10	12

A third of financial professionals (31 percent) report that their organizations plan to increase the amount of short-term debt that they have outstanding over the next 12 months. At the same time, however, 23 percent of respondents indicate that their organizations will reduce the amount of outstanding short-term debt.

Thirty-three percent of financial professionals report that their companies will increase their outstanding long-term debt over the next 12 months. Forty-five percent of survey respondents expect their organizations to maintain their current levels of long-term debt while 22 percent indicate that their organizations will decrease the amount of outstanding long-term debt. Respondents to the

December 2006 survey reported a slightly less likelihood of their organization increasing its outstanding debt over the next year.

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

	Short-term debt	Long-term debt
Increase	31%	33
Remain the same	46	45
Decrease	23	22

*Employment*

A lower level of confidence in business conditions also is reflected in the survey results that show fewer organizations plan to hire *more* employees during the New Year. Still, slightly more than one-third (36 percent) of financial professionals report that their organizations plan to increase their U.S. workforce over the next year, and almost two out of five (39 percent) of companies will likely maintain current employee levels. Nineteen percent report that their organizations intend to shrink their U.S. workforce in the coming year. As a comparison, in the December 2006 survey, 46 percent of survey respondents indicated that their organization was likely to grow its U.S. workforce compared to the 13 percent that expected the domestic workforce to decrease.

Hiring plans differ, however, depending on organization size. Respondents from smaller companies are more likely than those from larger ones to report that their organizations intend to grow their U.S. workforce. Forty-two percent of companies with annual revenues below \$500 million expect to expand their U.S. workforce while 19 percent of similarly sized companies expect to shrink their U.S.-based employment. As a comparison, 33 percent of respondents from companies with annual revenues greater than \$1 billion expect their organizations to expand their U.S. workforce. Nineteen percent of large companies expect to decrease the number of their U.S.-based workers.

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

Increase	36%
Stay the same	39
Decrease	19
Unsure sure at this time	6

**Conclusion**

Financial professionals will watch developments in the U.S. and foreign economies closely in 2008. Two important factors to monitor closely are housing and the value of the U.S. dollar. A continued housing downturn could ripple through the rest of the economy, harming consumer spending and stifling growth prospects in 2008. Further weakening of the U.S. dollar could impact those industries that depend on the purchasing value of the dollar in overseas markets.

On the positive side, while financial professionals are concerned about a tightened credit environment resulting primarily from the sub-prime mortgage crisis, most organizations have not had their access to credit negatively impacted. Three-quarters of organizations will either increase or maintain their current workforce levels next year. Financial professionals expect interest rates to

continue at low levels or even decline. Similar to many economic forecasts, financial professionals expect the U.S. economy to continue to grow, albeit at a slower pace than in 2007.

### **Methodology**

On November 29, 2007, AFP sent a 15-question survey to 3,700 of its corporate practitioner members that asked about their thoughts and expectations of business conditions. Through December 11<sup>th</sup>, AFP received 300 responses generating a response rate of approximately nine percent (adjusted for undelivered email). Surveys also were sent to prospective corporate practitioner members and to associate members. These groups generated an additional 81 and 270 responses, respectively. The total 651 responses to the survey are the basis of this report.

## **AFP EconWatch**

*AFP EconWatch* is a weekly newsletter featuring a summary of the latest economic data released over the previous week—tracking everything from prices and output to interest rates and business confidence. Designed to provide financial professionals with a roundup of the latest economic trends that could affect their organizations, this quick read is published every Monday and is emailed to subscribers and is available on AFP’s Research page at [www.AFPonline.org/research](http://www.AFPonline.org/research).

## **About AFP Research**

AFP Research provides financial professionals with proprietary and timely research that drives business performance. The AFP Research team is led by Director of Research and Data Standards, Kevin A. Roth, Ph.D., and is joined by four research analysts. AFP Research also draws on the knowledge of the Association’s members and its subject matter experts in areas that include bank relationship management, risk management, payments, and financial accounting and reporting. AFP Research reports on a variety of topics, including AFP’s annual compensation survey, are available online at [www.AFPonline.org/research](http://www.AFPonline.org/research).

## **About the Association for Financial Professionals**

The **Association for Financial Professionals (AFP)** serves more than 16,000 individual members throughout all stages of their careers in treasury and financial management. Headquartered in Bethesda, MD, AFP provides professional certification, continuing education, research, development of industry standards, financial tools and publications, training and career development and representation to legislators and regulators. AFP’s global reach includes *AFP of Canada*, a membership organization and *gtnews*, a London-based, on-line resource for the treasury and finance community

AFP is the daily resource for its members to seek answers, solutions, best practices and collaboration with peers. For more information about AFP, visit [www.AFPonline.org](http://www.AFPonline.org).