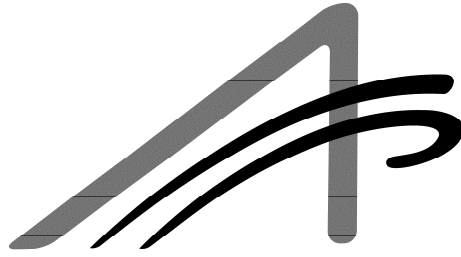




2009 AFP Business Outlook Survey



*Association for
Financial Professionals*

2009 AFP BUSINESS OUTLOOK SURVEY

Key Results

December 2008

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The U.S. economy will continue to weaken during 2009 as it remains in a recession that began in December 2007. 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, nearly half of survey respondents expect their organizations will shrink their U.S. workforce in the coming year. Financial professionals also identified a number of factors they feel could depress economic growth including weak consumer demand/consumer confidence, continued declines in home values, a growing federal deficit and rising health care costs. The recent turmoil in financial markets and the resulting credit crunch have led a number of organizations to take a variety of defensive actions, such as freezing hiring, layoffs, reducing capital spending, tightening credit standards for trading partners and the closing of plants, offices and locations. Not surprisingly, a majority of financial professionals link the eventual economic recovery to improvements in credit access.

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 financial professionals work in a wide range of industries in public and private organizations of varying sizes, their views are excellent indicators of future business conditions.

GDP Growth, Inflation and the Factors that Will Affect Growth

The past year featured both skyrocketing commodity prices followed by a historic collapse in the prices for those same goods. In addition, the housing market deteriorated further, the U.S. economy has shed nearly 2 million jobs, and credit markets tightened dramatically during the financial system turmoil that started in September. In the wake of all these developments, financial professionals are pessimistic about business conditions in 2009. Fifty-five percent of financial professionals expect business conditions to continue weakening during 2009, while 29 percent expect business conditions will remain the same. Sixteen percent of respondents, however, expect business conditions will begin to turn around during 2009.

Such a dour business outlook for 2009 reflects similar views of financial professionals revealed in a survey conducted exactly one year ago; nearly half of survey respondents to the *2008 AFP Business Outlook Survey* (conducted in December 2007) expected (correctly as it turns out) that business conditions would deteriorate during 2008. In last year's survey, 49 percent of financial professionals expected business conditions in 2008 to deteriorate, while 37 percent of respondents expected conditions to remain stable through the year.

Expected Change in Business Conditions in 2009 (Percentage Distribution)

Improve	16%
About the same	29
Weaken	55

Financial professionals expect gross domestic product (GDP) to shrink slightly in 2009, with the median GDP growth prediction at -0.3 percent. A third of survey respondents (33 percent) expect GDP to decline between 0.1 and 1.0 percent during 2009, while 17 percent expect GDP to decline by between -1.1 and -2.0 percent. On the other hand, 27 percent of financial professionals expect that there will be no economic growth in 2009 (i.e., annual GDP growth will be zero), or that growth will be less than 1.0 percent. Another ten percent expect economic growth of between 1.1 and 2.0 percent. For a perspective, GDP contracted at annualized rate of 0.5 percent during the third quarter

of 2008 but was 0.8 percent higher compared to the same time last year.

**Expectations for 2009 GDP Growth
(Percentage Distribution)**

+3.0% and above	1%
+2.0% to +2.9%	2
+1.0% to +1.9%	10
0.0% to +0.9%	27
-0.1% to -1.0%	33
-1.1% to -2.0%	17
Less than -2.1%	10

In addition to the turmoil in the financial services sector and the consequent credit crunch that has put the economy in peril in recent months, 2008 will be remembered for roller-coaster prices at the gas pump and elsewhere. During the spring and early summer of 2008, commodity prices shot up dramatically, putting pressure on companies that struggled to pass on the higher costs to their customers. While consumer prices were rising, prices deeper in the production chain suggested that higher inflation lurked around the corner. But by mid-summer, there was a dramatic reversal in fortune as prices in the commodity markets fell at a historic pace. For example, oil peaked near \$150 a barrel in July but was trading in the low to mid-\$40 range during early to mid-December.

The collapse of commodity prices and the fleeting demand for goods and services resulting from the recession have virtually eliminated price pressures from the economy. As a result, financial professionals expect consumer prices in 2009 will increase at a very slow pace, with the median prediction for growth in the Consumer Price Index (CPI) at +0.6 percent. Twenty-six percent of financial professionals expect consumer prices will increase between 0.1 percent and 1.0 percent during 2009, while 21 percent expect the CPI will increase between 1.1 and 2.0 percent during the next year. But there are also those who expect the CPI to be flat or slightly negative. Twenty-seven percent of financial professionals expect consumer prices will remain stable over the next year or decline by no more than 0.9 percent. Eight percent of financial professionals expect the CPI will fall by at least 1.0 percent during 2009. For a perspective, the CPI increased 1.1 percent between November 2007 and November 2008 while the core CPI (consumer prices excluding the volatile energy and food components) grew 2.0 percent during the same period.

**Expectations for 2009 CPI Growth
(Percentage Distribution)**

More than +4.0%	1%
+3.1% to +4.0%	7
+2.1% to +3.0%	10
+1.1% to +2.0%	21
+0.1% to +1.0%	26
-0.9% to 0.0%	27
-1.0% or less	8

While a number of factors will ultimately influence the direction of the U.S. economy in 2009, a majority of financial professionals agree on four factors that will impact the rate of economic growth (or contraction) over the next 12 months: consumer demand, access to corporate credit, access to consumer credit and stability in the housing market. Nearly four out of five survey respondents believe that consumer demand (and confidence) will play a significant role in the direction of the U.S. economy in 2009. In late November, both the University of Michigan's Consumer Sentiment Survey and The Conference Board's Consumer Confidence Surveys indicated that consumers are very pessimistic about near-term prospects.

Access to credit has been a major factor in the economic slowdown during 2008, particularly during the last third of the year. Three-quarters of financial professionals believe that corporate access to credit will continue to be a major factor affecting business conditions over the next 12 months, while 65 percent believe consumer access to credit (which impacts consumer demand) will play a key role in the direction of the U.S. economy in 2009. The slumping housing market, which has not only been the root of the credit crisis but also of the recession, is expected to be a major factor influencing economic growth in 2009—54 percent of survey respondents report that it will be a factor affecting business conditions over the next 12 months.

Other areas of concern include:

- Rising health care expenses (48 percent)
- Value of the U.S. dollar (44 percent)
- Business investment (44 percent)
- Federal budget deficit (43 percent)
- Failure of an American automotive company (or other major company) (41 percent).

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

	Dec 2008 Survey	Dec 2007 Survey	Dec 2006 Survey	Dec 2005 Survey
Consumer demand/ confidence	78%	43%	51%	46%
Access to corporate credit	75	44	#	#
Access to consumer credit	65	49	#	#
Declining home prices	54	70	#	#
Rising health care costs	48	46	58	58
Value of the U.S. dollar	44	82	59	46
Business investment	44	23	25	25
Federal budget deficit	43	31	36	40
Failure of an American automotive company (or other major company)	41	#	#	#
Volatile energy costs	32	73	68	67
Deflation	23	#	#	#
Inflation	21	40	40	39
Terrorism (or fear of terrorism)	20	15	31	28
Volatile commodity prices	17	#	#	#
Competition from abroad	15	34	42	37
Trade deficit	15	25	31	27
Rising interest rates	10	19	39	75

#-not asked in particular year's survey

Most financial professionals believe that energy prices will rebound—at least “slightly”—during 2009. Nine percent of financial professionals believe that energy prices will increase significantly during 2009 while 50 percent believe energy prices will increase but only “slightly.”

Similarly, most respondents believe that home prices will continue to decline in 2009. Nearly three out of five financial professionals (59 percent) expect home prices to decline “slightly” next year while 27 percent expect significant home price declines. Only eight percent of financial professionals are expecting a rebound in home prices during the next 12 months.

Until the recent rise of the U.S. dollar against most currencies, the U.S. trade picture had been improving. But financial professionals feel that the strengthening in the dollar and the global economic slowdown is going to reverse that trend. Sixty-three percent of financial professionals believe that the U.S. trade deficit will increase during 2009, with 17 percent expecting a “significant” increase. In addition, just over half of survey respondents believe that competition from abroad will grow during 2009. At least half of financial professionals believe that the U.S. dollar will continue appreciating against the British Pound and the Euro.

While 36 percent of financial professionals expect interest rates to rise during the next 12 months, 43 percent expect rates to decline. Finally, competitive pressures and the recession will provide few organizations the opportunity to increase prices unilaterally. Twenty-six percent of financial professionals expect that their organization will have greater pricing power in 2009 while 35 percent expect their organization’s pricing power will decrease during the year.

Expected Change Over Next 12 Months
(Percentage Distribution)

	Increase significantly	Increase slightly	No change	Decrease slightly	Decrease significantly
Trade deficit	17%	46%	19%	17%	1%
Energy costs	9	50	17	22	2
Competition from abroad	9	42	40	8	1
Growth rate of inflation	6	35	20	31	8
Interest rates	4	32	21	40	3
Value of U.S. dollar versus UK Pound	3	47	20	27	3
Value of U.S. dollar versus Euro	2	50	16	28	4
Value of U.S. dollar versus Canadian dollar	2	40	31	25	2
Value of U.S. dollar versus Yuan (Renminbi)	2	38	30	27	4
My organization's pricing power	2	24	39	31	4
Value of U.S. dollar versus Yen	2	39	28	28	3
Business investment	1	14	15	43	27
Home prices	*	8	17	59	16

Access to Credit

The turmoil in the credit markets began during the summer of 2007 and worsened dramatically in September of 2008; at the time this survey was conducted (December 2008), those markets had not recovered. The impact of the dramatic tightening of credit in recent months still was being measured as this report was written. Still, it was clear that such impact had deepened and likely extended the recession that already was afflicting the U.S. economy. AFP was among the first organizations to release empirical evidence of the detrimental impact that the credit turmoil was having on business decision-making and the economy as a whole. That evidence was published in late September 2008 in AFP’s *Short-Term Credit Access Survey* report (available at www.AFPonline.org/research). This business conditions survey revisits a number of the questions asked in the short-term credit access survey to see how financial professionals and businesses are reacting to the tightened credit conditions.

Ninety-two percent of organizations have taken at least one defensive action in response to the credit market turmoil since September 2008, with staffing taking a major hit. Sixty-five percent of financial

professionals who work for organizations that have taken at least one defensive action as a result of the credit crisis report that their organizations have frozen and/or reduced hiring as a result of reduced access to short-term credit since September while 56 percent indicate that their organizations have at least *considered* laying off staff. Three out of five organizations have reduced their capital spending. Other actions taken by organizations to conserve cash in the face of reduced access to short-term credit include:

- Tightened credit standards for trading partners (36 percent)
- Move all or most short-term investments to bank deposits and U.S. Treasuries (26 percent)
- At least consider closing locations/offices/plants (24 percent)
- Shorten the duration of the short-term investment portfolio (21 percent)
- Reduce current or planned inventory levels (21 percent).

Should short-term credit conditions not improve by mid-year 2009, 79 percent of organizations expect to take additional defensive actions to conserve cash. Nearly seven out of ten organizations (69 percent) that expect to take at least one additional defensive action should credit conditions not improve in the next 180 days expect to reduce capital spending as a result. Organization staffing also will continue to bare the brunt of the credit crisis should fortunes not turn around. Sixty-six percent of financial professionals expect that their organizations will freeze or reduce hiring (or continue freezing or reducing hiring) while 64 percent indicate that that staff reductions will be used to counteract continued inaccessibility to short-term credit. Other actions financial professionals expect their organizations will take to counteract continued tightened short-term credit include:

- Tighten credit standards for trading partners (40 percent)
- Consider closing locations/offices (30 percent)
- Reduction in current or planned inventory levels (25 percent)
- Draw on credit facilities that are still available to build cash (22 percent).

**Actions That Organizations Have Taken (or Expect to Take)
as a Result of Reduced Access to Short-Term Credit**
(Percentage of Organizations Reporting Have Taken or Expect to Take Action)

	Actions take since the start of the credit crisis in September	Expected Actions Should Credit Access Not Improve Over Next 3-6 Months
Freeze/reduce hiring	65%	66%
Reduce capital spending	61	69
Consider staff reductions/layoffs	56	64
Tighten credit standards for trading partners	36	40
Move all or most short-term investments to bank deposits and U.S. Treasuries	26	10
Consider closing locations/offices	24	30
Reduce current or planned inventory levels	21	25
Shorten the duration of short-term investment portfolio	21	14
Reduce/eliminate share dividend payments	15	16
Draw on credit facilities that are still available to build cash	14	22
Delay payments to vendors	13	20
Delay/discontinue share repurchases	11	15
File for bankruptcy	1	1

In a survey conducted during the last week in September 2008 as a part of the *2008 AFP Short-Term Credit Access Survey*, 40 percent of financial professionals indicated that their organizations had less access to credit than they had at the beginning of that month. Since then, the U.S. Treasury Department and the Federal Reserve have taken a series of actions whose purposes include jump-starting the credit markets. Financial professionals, however, indicate that these government actions have not had a significant impact on their organizations' access to short-term credit.

Just eight percent of financial professionals report that their organizations' access to credit has improved since October 1, 2008 while 36 percent report that their access to credit had deteriorated over the past two months. Fifty-six percent of financial professionals indicate that their organizations' access to credit has not changed since October 1st. (One could conclude, however, that some of these organizations already had been detrimentally impacted by the events prior to October 1st).

Change in Access to Credit Since October 1st
(Percentage Distribution)

Significantly improved access	1%
Somewhat improved access	7
No change since October 1st	56
Somewhat deteriorated access	26
Significantly deteriorated access	10

Given its scarcity, it is not surprising that credit is becoming more expensive for those organizations that are actually able to gain access to it. Twenty percent of financial professionals report that the cost of credit to their organizations has risen “significantly” in the two months since October 1st while 32 percent find that the cost of credit has grown “somewhat higher.” A third of survey respondents report no change in their organizations' cost of credit while 15 percent indicate that credit has become cheaper in recent months.

Change in Cost of Credit Since October 1st
(Percentage Distribution)

Significantly higher cost of credit	20%
Somewhat higher cost of credit	32
No change since October 1st	33
Somewhat lower cost of credit	13
Significantly lower cost of credit	2

Just over a half of survey respondents believe their organizations' access to short-term credit will remain stable over the next 12 months. Twenty-six percent of survey respondents believe their organization's access to short-term credit will decline over the next year, while 21 percent expect the access to short-term credit will improve in 2009. In last year's survey, only ten percent of respondents expected their organization's access to credit would deteriorate during 2008—demonstrating how unexpected both the speed and ferocity of the shift in the credit markets have been.

Financial professionals are slightly more pessimistic about their organizations' access to long-term credit (defined as having a term of at least five years) compared with results of last year's survey. While 49 percent of survey respondents expect the availability of long-term credit will be unchanged in 2009, 34 percent expect there to be less availability of such credit. In last year's survey, just 22 percent of survey respondents had expected long-term credit to have been less available in 2008.

Expected Change in Access to Credit in 2009
(Percentage Distribution)

	Short-term credit	Long-term credit
Increased availability	21%	17%
No change in availability	53	49
Decreased availability	26	34

Twenty-nine percent of financial professionals 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, 31 percent of respondents indicate that their organizations will reduce the amount of outstanding short-term debt. A year ago, 23 percent of organizations had planned to decrease their amount of outstanding short-term debt.

A quarter of financial professionals report that their organizations plan to increase their outstanding long-term debt over the next 12 months. Forty-eight percent of survey respondents expect their organizations to maintain their current levels of long-term debt while 27 percent indicate that their organizations will decrease the amount of outstanding long-term debt. Respondents to the December 2007 survey were slightly more likely to report their organizations intended to increase their amount of outstanding long-term debt.

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

	Short-term debt	Long-term debt
Increase	29%	25
Remain the same	40	48
Decrease	31	27

Disruption in the credit markets began during the latter half of the summer of 2007 and accelerated this past September following the government takeover of Fannie Mae and Freddie Mac, the bankruptcy of Lehman Brothers, the government rescue of AIG and the failure or expedited sale of several large commercial banks. Since then, a number of high-profile Treasury Department and Federal Reserve programs were launched in the hope of providing stability to the credit markets. Despite these actions, however, only seven percent of financial professionals believe the worst of the credit crisis has passed. Three out of ten financial professionals believe the credit markets will begin to recover during the first few months of 2009 while 63 percent of survey respondents believe it will not be until at least mid-year 2009 before the credit markets begin to recover.

Status of the Credit Crisis
(Percentage Distribution)

The worse has passed	7%
Believe that the credit markets will begin to recover during first quarter of 2009	30
Do not believe the credit markets will begin to recover until at least mid-year 2009	63

Despite the belief that the worst of the credit crisis has not yet passed, most financial professionals believe the actions taken by the U.S. Treasury, Federal Reserve and other central banks have mitigated the impact of the financial system turmoil. Sixty-three percent of survey respondents believe that these government actions have mitigated the impact of the turmoil in the financial system while 25 percent believe that these actions have had no material impact on the credit markets

and the financial system. Twelve percent of financial professionals believe the actions of the U.S. Treasury, Federal Reserve and other central banks actually have exacerbated the financial system turmoil.

Financial Professionals' Belief of the Impact of the U.S. Treasury, Federal Reserve, and Other Central Banks' Actions on the Turmoil in the Financial System and Credit Markets
(Percentage Distribution)

Have mitigated the impact of the turmoil in the financial system	63%
No significant impact	25
Have worsen the impact of the turmoil in the financial system	12

Employment

The Bureau of Labor Statistics reported in early December that payrolls in the U.S. declined by 1.256 million between September and November 2008. Similarly, 43 percent of financial professionals indicate that their organizations had reduced the number of workers employed since September. Forty-six percent report that their organizations' employment level has remained the same while 11 percent report that payrolls have increased.

Change in Number of Workers Employed at Organization Over Past Three Months
(Percentage Distribution)

Increase	11%
Stay the same	46
Decrease	43

Tight credit markets and a belief that the current recession will continue for the near-term have reduced the likelihood that organizations will expand payrolls during 2009. Instead, nearly half of financial professionals (49 percent) expect their organizations will decrease the number of workers that they employ over the next year. Sixteen percent of survey respondents expect payrolls to increase during 2009 while 35 percent expect no significant change in the number of workers that their organizations employ. As a comparison, 36 percent of respondents to last year's survey expected their organizations would expand payrolls during 2008 while 46 percent of respondents to the December 2006 survey indicated that their organizations were likely to grow their U.S. workforce.

Hiring plans differ, however, depending on organization size. Respondents from large companies are more likely than those from smaller ones to believe that their organizations intend to shrink their U.S. workforce. Forty percent of companies with annual revenues below \$500 million expect to shrink their U.S. workforce while 60 percent of organizations with annual revenues greater than \$1 billion expect to shrink their U.S.-based employment.

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

Increase	16%
Stay the same	35
Decrease	49

Conclusion

Financial professionals expect that the recession that began in December 2007 will continue well into 2009. Overall, they expect GDP growth during 2009 will be negative and that their organizations are likely to reduce payrolls in response to those conditions.

While a number of factors will ultimately influence both the direction and magnitude of economic growth in the U.S., financial professionals cite an improvement in both consumer and corporate access to credit, a rebound in consumer confidence (and demand) and a bottom to the free fall in housing prices as necessary conditions for the beginning to an economic recovery.

Methodology

On December 1, 2008, AFP sent an 18-question survey to 3,800 of its corporate practitioner members that asked about their thoughts and expectations of business conditions. Through December 12th, AFP received 394 responses generating a response rate of approximately 12 percent (adjusted for undelivered email). Surveys also were sent to prospective corporate practitioner members and to members who work for financial institutions and other vendor organizations. These groups generated 64 and 358 additional responses, respectively. The total 816 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 also is available on AFP's Research page at 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.

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