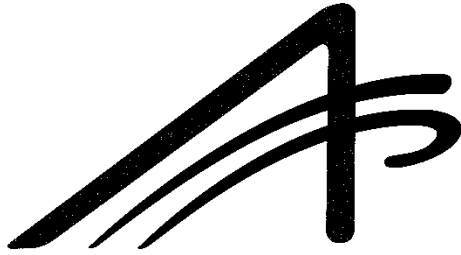




2011 AFP
Business Outlook
Report of Survey Results



*Association for
Financial Professionals*

2011 AFP BUSINESS OUTLOOK SURVEY

Key Results

December 2010

2011 AFP Business Outlook Survey

U.S. financial professionals expect the U.S. economy will grow 2.3 percent in 2011. But they also do not anticipate a strengthening labor market to materialize until after 2011. These conclusions are based on results of the Association for Financial Professionals' (AFP) 2011 Business Outlook Survey. Even though a significant share of financial professionals—in fact, the largest percentage since December 2006 (as reflected in the *2007 AFP Business Outlook Survey*)—expects their organizations will expand payrolls in 2011, they are expecting a net gain in payrolls of only 800,000.

The *2011 AFP Business Outlook Survey* also reveals that financial professionals are focusing on a number of factors that they think will affect the degree to which the U.S. economy gains strength during the New Year: consumer demand, business investment, access to credit, stability in the housing market and resolving uncertainty in tax policy. Financial professionals also see limited value in the recently launched second round of quantitative easing by the Federal Reserve (the so-called “QE2”) as well as with any proposed additional fiscal stimulus.

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 both 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.

AFP has surveyed its members each December of the past seven years to track their outlook of future business conditions. As with all AFP surveys, both the survey instrument and final report were produced by AFP's Research Department, which is solely responsible for their content.

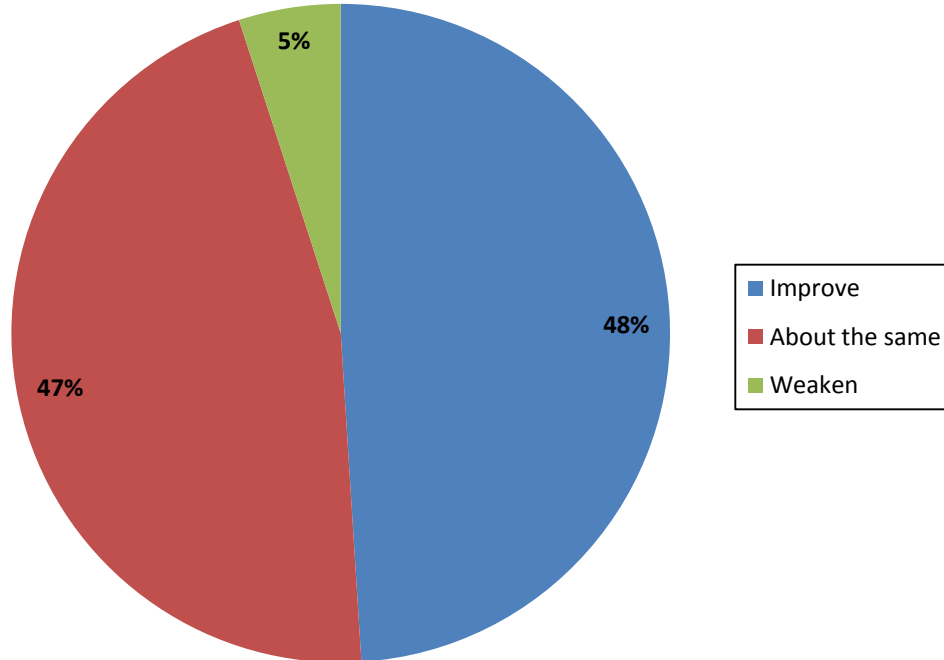
GDP Growth, Inflation and the Factors that Will Affect Growth

2010 was a year of economic recovery for the U.S., although that recovery was at an uneven pace. Following positive growth in gross domestic product (GDP) in the final two quarters of 2009, GDP growth was also on the “plus” side in the first three quarters of 2010. According to the Bureau of Economic Analysis (BEA), GDP grew 3.7 percent *on an annualized basis* during the first three months of 2010. But the economic expansion was not consistent. The GDP figures for the second and third quarters of 2010 were just 1.7 percent and 2.5 percent, respectively. Nevertheless, the National Bureau of Economic Research announced in September that the recession had officially ended 15 months earlier—in June 2009.

In the wake of all these developments, financial professionals are increasingly optimistic about business conditions in 2011. Forty-eight percent of financial professionals expect business conditions will improve in 2011, while 47 percent expect business conditions will remain the same. Just five percent of survey respondents believe that business conditions will deteriorate in 2011.

These results reflect a continuing positive view of the economy cited in the *2010 AFP Business Outlook Survey* (conducted in December 2009), while at the same time contrast with the findings from the *2009 AFP Business Outlook Survey* (conducted in December 2008). In the survey conducted a year ago (December 2009), 45 percent of survey respondents expected the U.S. economy to improve over the following 12 months (largely they were correct). In December 2008 – when both the economy and the financial markets were rapidly deteriorating—55 percent of respondents *accurately* expected that business conditions would continue to deteriorate in 2009.

Expected Change in Business Conditions in 2011
(Percentage Distribution)



Financial professionals expect GDP will grow at a modest rate in 2011, with the median GDP growth prediction at 2.3 percent. Fifty percent of survey respondents believe the U.S. economy will grow between 2.0 and 2.9 percent during the year while 20 percent expect the growth rate will be between 1.0 and 1.9 percent. Fifteen percent are the most optimistic—anticipating that the economy will grow by at least 3.0 percent. Only nine percent of financial professionals anticipate that the U.S. economy will *contract* in 2011. For a perspective, participants in last year’s survey anticipated the U.S. economy would grow 2.0 percent in 2010.

Expectations for Growth in the Gross Domestic Product (GDP)
(Percentage Distribution)

+3.0% and above	15%
+2.0% to +2.9%	50
+1.0% to +1.9%	20
0.0% to +0.9%	7
-0.1% to -1.0%	*
-1.1% to -2.0%	3
Less than -2.1%	6

Inflation remained well in check for most of 2010. The consumer price index (CPI) increased a modest 1.2 percent between October 2009 and October 2010 while core CPI (which excludes the volatile energy and food components) grew at a paltry 0.6 percent pace during the same period. This was the smallest year-to-year increase in core consumer prices in the 53-year history of the Bureau of Labor Statistics data series.

Financial professionals expect the U.S. will continue to experience modest inflation in 2011, with the median prediction for CPI growth at +1.4 percent. Forty-eight percent of financial professionals anticipate consumer prices will increase between 1.1 percent and 2.0 percent during 2011 while 23 percent expect CPI to increase between 0.1 and 1.0 percent during the next year. Another 17 percent expect consumer prices will rise between 2.1 and 3.0 percent in 2011.

Interestingly, despite the debates going on between economists and policymakers about whether the U.S. is about to enter a period of rampant inflation or a deflationary spiral, few financial professionals see either as a likely occurrence in 2011. Just one percent of survey respondents anticipate consumer prices will increase by more than 4.0 percent in 2011. (*Note: the CPI has not increased on a year over year basis by more than 4.0 percent since 1991.*) Nine percent of survey respondents anticipate the CPI will decrease in 2011—in the December 2009 survey, 19 percent of financial professionals had expected the same.

Expectations for Growth in the Consumer Price Index (CPI) in 2011
(Percentage Distribution)

More than +4.0%	1%
+3.1% to +4.0%	2
+2.1% to +3.0%	17
+1.1% to +2.0%	48
+0.1% to +1.0%	23
-0.9% to 0.0%	7
-1.0% or less	2

Financial professionals consider the two most important factors influencing 2011 business conditions to be a resurgence in consumer demand/confidence (and therefore spending) and increased business investment. Nine out of ten financial professionals rate consumer demand/consumer confidence either a four or five (on a five-point scale). Fifty-six percent of financial professionals give consumer demand a five on the five-point scale—this is 16 percentage points more than are given to any other factors presented to the December 2010 survey participants.

As reported by the Federal Reserve, and confirmed in the *2010 AFP Liquidity Survey*, U.S.-based companies have been amassing large sums of cash but at the same time have been restrained in making critical capital investments. Eight-one percent of financial professionals identify an increase in business investment as being a critical factor influencing 2011 business conditions.

In addition to the above two issues, financial professionals consider other factors important influences on business conditions for the coming year. Having well-functioning credit markets is one such issue. Seventy-nine percent of financial professionals indicate that access to corporate credit is an important factor, while 68 percent feel the same regarding access to consumer credit.

The large number of real estate mortgages in some stage of default affected the credit markets (and, of course, was also a major cause of the recent recession and financial crisis). Sixty-nine percent of financial professionals believe the number of mortgage defaults will greatly influence 2011 business conditions. Fifty-nine percent of survey respondents indicate they will also closely monitor home price trends in 2011 for clues regarding business conditions. Another wild card that is likely to affect credit markets and ultimately macroeconomic conditions in the U.S. is the sovereign debt crisis impacting a number of European nations. Sixty-three percent of financial professionals indicate that this issue will be an important influence on 2011 business conditions.

One of the biggest news stories in 2010 was the enactment of the health care reform bill. Seventy-three percent of survey respondents see managing health care costs as a major factor impacting overall business conditions in 2011. At the same time, 59 percent indicate that *implementation* of the new health care plan will have an impact on business conditions in the New Year.

During the second half of 2010, analysts and policymakers debated whether the U.S. economy was at risk for a period of deflation or whether the economic stimuli of both the federal government and the Federal Reserve could lead to uncontrollable inflation. As shown above, most financial

professionals do not expect either situation to occur—either deflation or hyperinflation—with only a modest increase in CPI expected in 2011. Still, financial professionals are more likely to worry about the risk of *inflation* rather than of *deflation*. Fifty-six percent of financial professionals believe the *possibility* of inflation will have an impact on business conditions in 2011 versus 39 percent who are concerned about the *possibility* of deflation.

Factors Affecting Overall Business Conditions Over the Next 12 Months
(Percentage of Respondents Rating the Importance of Factor a “4” or “5” on a Five-Point Scale)

	Scored a “5” or “4”	Scored a “5”	Scored a “4”
Consumer demand/Consumer confidence	90%	56%	34%
Business investment	81	36	45
Access to corporate credit	79	40	39
Managing health care costs	73	33	40
Uncertainty surrounding tax policy	69	34	35
Rising/continuing mortgage defaults	69	29	40
Volatility in value of the U.S. dollar	69	28	41
Access to consumer credit	68	28	40
Federal budget deficit	67	32	35
Rising interest rates	63	29	34
Sovereign debt crisis	63	22	41
Volatile energy costs	62	23	39
Implementation of new health plan	59	27	32
Declining home prices	59	24	35
Volatile commodity prices (non-energy)	58	18	40
Possibility of inflation	56	22	34
Competition from abroad	54	21	33
Trade deficit	53	20	33
Possibility of deflation	39	15	24
Terrorism (or the fear of terrorism)	39	14	25

Access to Credit

The turmoil in the capital markets that began during the summer of 2007 and worsened dramatically in September of 2008 was a major factor underlying both the severity and length of the recession that began in December 2007 and ended (officially) in June 2009.

During 2010, access to capital improved for some, but not all, organizations. A third of corporate practitioner survey respondents report that their organizations’ access to debt markets improved during 2010, while a quarter report the same for their organizations’ access to the equity markets. Sixty percent of financial professionals indicate that their organizations’ access to debt markets had remained the same in 2010 while 69 percent report the same for access to equity markets. Access to debt and equity markets deteriorated for seven and six percent of organizations, respectively.

Organizations’ Access to Capital Relative to 12 months Ago*
(Percentage of Organizations)

	Increased	Remained the same	Decreased
Equity Markets	25%	69%	6%
Debt markets	33	60	7

*- Responses from participants from banks/financial services were not included in the analysis

Sixty-four percent of survey respondents indicate that their organizations' access to short-term credit has remained the same since December 2009. While 29 percent of financial professionals report that their organizations' access to short-term credit has improved over the past 12 months, just seven percent indicate that access has deteriorated over the same time. Survey respondents report nearly identical trends with access to long-term credit as with short-term credit.

Change in Access to Credit Over the Past 12 Months*
(Percentage Distribution)

	Short-term Credit (Five-Years or Less)	Long-term Credit (Five-Years or Greater)
Increased	29%	27%
Remained the same	64	66
Decreased	7	7

*- Responses from participants from banks/financial services were not included in the analysis

Sixty-six percent of survey respondents indicate that their organizations' access to short-term credit has remained the same since December 2009. While 32 percent of financial professionals report that their organizations' access to short-term credit has improved over the past 12 months, just two percent indicate that such access has deteriorated over the same time. Survey respondents report nearly identical trends with access to long-term credit as with short-term credit.

Expected Change in Access to Credit in 2011*
(Percentage Distribution)

	Short-term Credit (Five-Years or Less)	Long-term Credit (Five-Years or Greater)
Increased availability	32%	29%
No change in availability	66	68
Decreased availability	2	3

*- Responses from participants from banks/financial services were not included in the analysis

Twenty-one 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, 24 percent of respondents indicate that their organizations will reduce the amount of outstanding short-term debt. A year ago, 32 percent of organizations had planned to decrease their amount of outstanding short-term debt.

Twenty-two percent of financial professionals report that their organizations plan to increase their outstanding *long-term* debt over the next 12 months. Fifty-one 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. Twenty-one percent of respondents to the December 2009 survey indicated their organizations intended to increase their amount of outstanding long-term debt in 2010.

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

	Short-term Debt (Five-Years or Less)	Long-term Debt (Five-Years or Greater)
Increase	21%	22%
Remain the same	55	51
Decrease	24	27

*- Responses from participants from banks/financial services were not included in the analysis

Employment

During the 12-month period through November 2010, the U.S. economy created 842,000 jobs. While this was the largest 12-month gain in payrolls since January 2008, the pace of job creation remains far below what the economy needs in order begin chipping away at the 8 million jobs lost during the recent recession.

Financial professionals provide some optimism on the job front for 2011. Forty-two percent of financial professionals indicate that they expect their organizations to expand payrolls above current levels over the next year. This is the largest percentage expecting growth in payrolls since the December 2006 survey. In the December 2009 survey, only 26 percent of survey respondents had expected payrolls to grow over the coming 12 months.

Forty percent of financial professionals expect their organizations will maintain their current number of employees through the end of 2011; 18 percent anticipate a contraction in payrolls over the coming year. Eighteen percent of financial professionals expect employment within their organizations' treasury and finance groups will grow in 2011.

The decision to add staff in 2011 has little relationship with the size of the organization. Forty-four percent of survey respondents from organizations with annual revenues greater than \$1 billion expect their companies will add employees in 2011 compared to 43 percent of those from organizations with annual revenues less than \$1 billion.

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

	Increase	Remain the same	Decrease
Overall organization	42%	40%	18%
Employment within treasury/finance	18	74	3

Even though a greater percentage of survey respondents expect their organizations will add employees in the New Year, financial professionals are less sanguine about job gains in the overall economy. The average estimate among financial professionals is for a net job gain of 800,000 in 2011, with 43 percent of survey respondents expecting the U.S. economy to gain fewer than a million jobs during the year. Thirty-seven percent of financial professionals expect net job gains of between 1 and 1.9 million jobs while four percent expect at least 2 million jobs will be created in 2011.

Anticipated Number of Jobs (on a Net Basis) the U.S. Economy Will Create in 2011 (Percentage Distribution)

More than 3 million	1%
Between 2 million and 2.9 million	3
Between 1 million and 1.9 million	37
Fewer than 1 million	43
Little to no gain in non-farm payrolls	14
Non-farm payrolls will contract in 2011	2

Policy, Regulation and the Economy

Nine out of ten financial professionals believe both the uncertainty regarding business income taxes and Washington's attitude about business (particularly in terms of regulatory and legislative tone) have had a detrimental impact on economic growth in the U.S. Fifty-eight percent regard

uncertainty about taxation of business income as being a major detriment while 55 percent feel that a perceived “anti-business” sentiment of policymakers in Washington is hurting economic prospects.

Additional hurdles to economic growth are the growing federal deficit and the volatility in the U.S. dollar. Some analysts have linked the aggressive monetary policies of the Federal Reserve as being both inflationary and harming the value of the dollar. Forty-seven percent of financial professionals indicate that the size of the federal deficit is a major detriment to economic growth. Similarly, 36 percent of survey respondents view the volatility in the U.S dollar as a major detriment.

Policy Impact on Economic Growth
(Percent Distribution)

	Major detriment	Minor Detriment	Has no impact	Has promoted economic growth in the U.S.
Uncertainty about taxation of business income in 2011 and beyond	58%	33%	9%	*
Washington's attitude about business in terms of regulatory and legislative tone	55	34	9	2
The size of the federal deficit	47	40	11	2
Uncertainty about taxation of personal income in 2011 and beyond	42	40	17	*
The volatility in the value of the U.S. dollar	36	52	9	3
The taxation of cash repatriated from overseas operations	23	56	17	4

In recent years, the U.S. government enacted a number of fiscal stimuli in the form of increased government expenditures and tax incentives (the highest profile example being The American Recovery and Reinvestment Act of 2009) to stimulate economic activity.

Currently, there is a debate about whether the U.S. government should further stimulate the economy through fiscal means – in other words, should there be another “stimulus” program. Some economists and policymakers point to the slow pace of job creation as evidence for the need for additional fiscal stimulus. Others, however, have expressed concern about the effectiveness of fiscal stimulus in general (as well as the recent stimulus programs specifically) and about the impact the current and resulting additional federal deficit will have on long-term growth prospects for the economy. Some support proposals like the one from the National Commission on Fiscal Responsibility and Reform (i.e., the President’s deficit reduction commission)—that include significant expenditure cuts and tax code reforms—as the path to long-term growth.

Financial professionals overwhelmingly do *not* believe that additional fiscal stimulus is necessary or desirable at this stage. Just 15 percent of survey respondents believe that additional fiscal stimulus is necessary given current economic conditions. On the other end of the spectrum, 37 percent of financial professionals believe that the state of the economy and the size of the federal deficit make it imperative to enact proposals like those from the deficit reduction commission. Nearly half of survey respondents believe neither additional stimulus nor drastic budgetary proposals are desirable at this point.

View on Fiscal Stimulus/Deficit Spending Given Current Economic Conditions
(Percent Distribution)

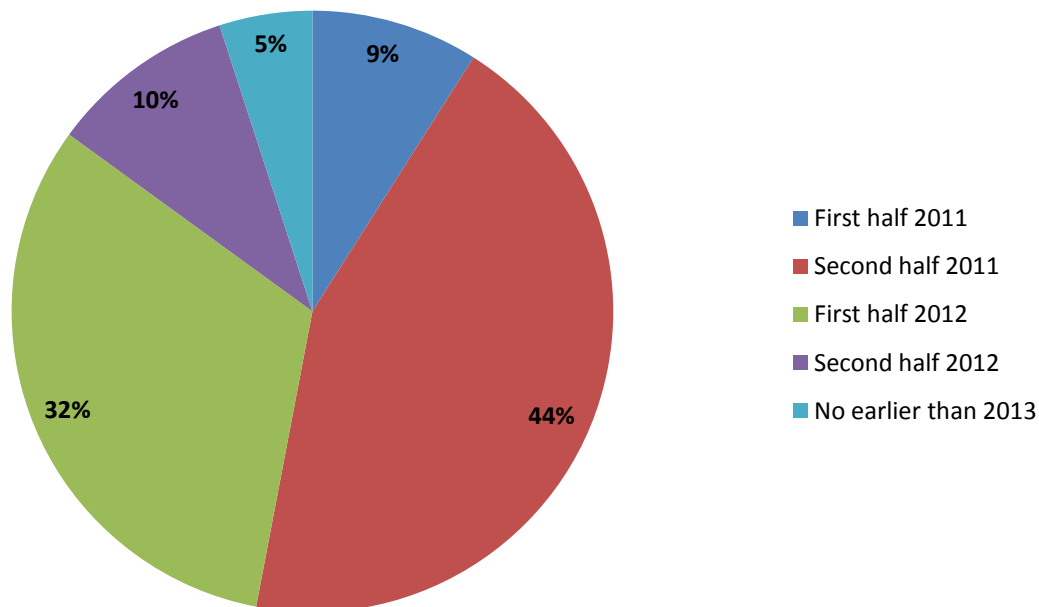
Additional fiscal stimulus is necessary	15%
Additional fiscal stimulus is not necessary. However, the recovery remains too fragile to consider enacting budgetary proposals like those from the deficit reduction committee	48
The state of economy and the size of the federal deficit make it imperative to enact proposals like those from the deficit reduction commission	37

Actions by the Federal Reserve

In reaction to the financial crisis and the rapidly deteriorating economy, the Federal Reserve Board's Federal Open Market Committee (FOMC) lowered the Federal Funds target rate—a major determinant of interest rates—to near zero in December 2008. The target rate has remained at this ultra-low level since then.

But as the economy continues to recover, the Federal Reserve has begun unwinding a number of its monetary stimulus programs (although it had started a new round of quantitative easing in November) and will eventually begin to raise the Fed Funds target rate some time in the future. A plurality of financial professionals anticipates that the FOMC will raise the Federal Funds target rate during the second half of 2011. Nine percent of survey respondents believe the first rate hike will occur sooner—during the first half of 2011. Nearly a third of financial professionals believe the first hike in the Fed Funds target rate will not occur until the first half of 2012, while 15 percent believe a rate hike will not occur until at least the second half of 2012.

Anticipated Time Frame When FOMC Will Begin to Raise the Fed Funds Target Rate
(Percentage Distribution)



In November 2010, the Federal Open Market Committee voted to allow the Federal Reserve to purchase an additional \$600 billion in Treasury securities to inject additional liquidity into the U.S. economy. The decision to resume quantitative easing was reached by a 10-1 vote as the committee characterized the “pace of recovery in output and employment continu[ing] to be slow.” Given the tepid pace of growth and inflation measures that “have trended lower in recent quarters,” the FOMC

decided to expand the Fed's holdings of securities through two methods:

- Purchasing \$75 billion in longer-term Treasury securities per month through June 2011.
- Continuation of a policy started in August to reinvest principal payments from the Fed's current securities holdings.

Most financial professionals are not particularly optimistic that the Fed's decision to expand its balance sheet will help promote economic growth. Just 23 percent of survey respondents believe the Fed's decision to purchase an additional \$600 billion in Treasury securities will enhance business conditions. Fifty-three percent believe the action will have no impact on the economy while 24 percent believe that the move will diminish business activity.

Expected Impact on Business Conditions of FOMC Decision to Purchase an Additional \$600 Billion in Treasury Securities
(Percentage Distribution)

Enhance	23%
No impact	53
Diminish	24

Since November's meeting of the Federal Open Market Committee, there has been considerable debate over the Committee's decision to authorize the Fed's purchase of \$600 billion in Treasury securities and to reinvest principal payments made on previous securities purchased by the Federal Reserve. Advocates of the resumption of quantitative easing point out that the action was necessary to promote economic growth and hiring. Others, however, have expressed concern about the action's impact on inflation and the value of the U.S. dollar.

A plurality of financial professionals is concerned about the risks associated with the Fed's move. Forty-three percent of survey respondents believe the risks of the Fed's actions outweigh the benefits. Thirty percent of financial professionals believe the benefits and risks of the Fed's actions are equally balanced. Just twenty-seven percent of financial professionals believe the benefits of the actions outweigh the risks.

Benefits Versus Risks Associated with the Resumption of Quantitative Easing
(Percentage Distribution)

The benefits of the action greatly outweigh the risks (5)	6%
(4)	21
The benefits and risks of the actions are equally balanced (3)	30
(2)	32
The risks of the action greatly outweigh the benefits (1)	11

Even if they are not particularly confident in the efficacy of the second round of quantitative easing, a significant proportion of financial professionals participating in the survey *do* think it is somewhat likely that the Federal Reserve will continue to expand its balance sheet beyond the current June 30, 2011 deadline. Financial professionals place a 37 percent probability that the Fed will decide to continue purchasing securities beyond the June 30th date

Conclusions

Overall, financial professionals anticipate the U.S. economy will continue to strengthen, albeit at a modest pace, in 2011, with nearly half of financial professionals expecting growth in gross domestic product (GDP) of between 2.0 and 2.9 percent. While the largest percentage of financial professionals since December 2006 is anticipating their organizations will add staff to their payrolls in 2011, financial professionals are expecting a net gain in payrolls of only 800,000 for the entire U.S. economy.

Financial professionals are focusing on a number of factors that they feel will affect the degree to which the U.S. economy is able to pick up steam in 2011: consumer demand, business investment, access to credit, stability in the housing market and resolving uncertainty in tax policy. In addition, financial professionals are not particularly optimistic that additional fiscal stimulus or the recently enacted second round of quantitative easing would promote further economic growth.

Methodology

On November 29, 2010 AFP sent a 24-question survey to corporate practitioner members and prospective members that asked about their thoughts about and expectations of business conditions. Through December 10th, AFP received 706 responses generating a response rate of approximately nine percent (adjusted for undelivered email). Surveys also were sent to members who work for financial institutions and other vendor organizations. This generated 102 additional responses. The total 808 responses to the survey are the basis of this report.

The characteristics of the survey respondents mirror those of AFP's membership with wide coverage across all major industry groups. The typical respondent is employed by an organization with annual revenues of \$1.9 billion. Forty-eight percent of respondents work for a publicly traded organization.

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 Managing Director of Research and Strategic Analysis, 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.

About the Association for Financial Professionals® (www.afponline.org/about)

The Association for Financial Professionals (AFP) serves a membership of more than 16,000 treasury and finance professionals. Headquartered in Bethesda, Maryland, in the U.S., AFP provides members with news, economic research and data on the evolving world of treasury and finance, as well as world-class treasury certification programs, networking events, financial analytical tools, training, and public policy representation to legislators and regulators. AFP is the daily resource for treasury and finance professionals.

AFP’s global reach extends to over 150,000 treasury and financial professionals worldwide, including AFP of Canada, the London-based *gtnews*, an on-line resource for the treasury and finance community, and *bobsguide*, a financial IT solutions network.

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