



*Association for  
Financial Professionals*

# **AFP 2006 BUSINESS OUTLOOK SURVEY**

**Key Results**

December 2005

## AFP 2006 Business Outlook Survey

U.S. financial professionals believe that the U.S. economy will grow at a moderate pace in 2006, according to a survey conducted by the Association for Financial Professionals. In addition, many survey respondents indicate that they expect their organization to expand its U.S. workforce in the coming year. While financial professionals are optimistic about business conditions, they note several threats to future economic growth; including, rising interest rates, volatile energy costs, and rising health care costs.

Financial professionals are unique 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 Growth*

Financial professionals view 2006 business conditions with a high level of optimism. Forty-seven percent of financial professionals expect business conditions to improve during 2006, while another 41 percent expect similar business conditions as those found in 2005. Only 12 percent expect business conditions to deteriorate during 2006.

While financial professionals are optimistic about 2006, they were a bit more optimistic in December 2004. Fifty-four percent of participants to the *AFP 2005 Business Outlook Survey* (conducted in December 2004) 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 in 2006** (Percentage Distribution)

Improve	47%
About the same	41
Weaken	12

Just over half of survey respondents (51 percent) expect GDP to grow between three and four percent during 2006. As a matter of perspective, GDP grew at annualized pace of 4.3 percent during the third quarter of 2005. Twenty-four percent of financial professionals expect weaker GDP growth (or even contraction) while 25 percent expect stronger GDP growth of greater than 4 percent.

**Expectations for 2006 GDP Growth**  
(Percentage Distribution)

5.0% and above	5%
4.0-4.9%	20
3.0-3.9%	51
2.0-2.9%	16
1.0-1.9%	6
0-0.9%	2
Economy will contract	*

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. Three-quarters of survey respondents believe rising interest rates will impact business conditions while two-thirds express concern about volatile energy costs. In addition, fifty-eight percent of survey respondents believe rising health care costs will have an impact on business conditions.

These findings are particularly interesting when compared to the results of the *AFP 2005 Mid-Year Business Outlook Survey* (conducted in June 2005). In that survey, 83 percent of financial professionals identified rising energy costs as a threat to future economic growth. The 16 percentage point drop for energy costs is despite the dramatic fluctuations in energy prices that resulted from the aftermath of Hurricanes Katrina and Rita. The number two issue in the June 2005 survey, rising interest rates, is now the top concern of financial professionals, rising 14 percentage points over the past six months. Other issues receiving substantial increases in this survey are rising health care costs (up nine percentage points), inflation (up 13 percentage points), and terrorism (up nine percentage points).

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

	Dec 2005 Survey	June 2005 Survey
Rising interest rates	75%	61%
Volatile energy costs	67	83
Rising health care costs	58	49
Value of the U.S. dollar	46	52
Consumer demand	46	46
Federal budget deficit	40	37
Inflation	39	26
Competition from abroad	37	31
Terrorism (or fear of terrorism)	28	19
Trade deficit	27	31
Business investment	25	*

\*-not asked in June 2005 survey

Financial professionals believe that their organization will be facing increased costs over the next 12 months. Ninety-five percent of survey respondents believe interest rates will continue to increase through 2006, while 82 percent expected continued increases in energy costs. Further, while 79 percent of financial professionals believe inflation will increase over the next year, only a third of survey participants believe their own organization will gain increased pricing power over the same time period. Most survey respondents believe the trade deficit will continue to increase (78 percent) as competition from abroad (75 percent) continues to impact their business.

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

	Increase significantly	Increase slightly	No change	Decrease slightly	Decrease significantly
Energy costs	36%	46%	9%	9%	*
Trade deficit	22	56	16	6	*
Competition from abroad	19	56	25	1	*
Interest rates	8	87	3	1	*
Business investment	5	57	27	10	1
Growth rate of inflation	4	75	18	3	*
Value of U.S. dollar versus Euro	2	42	21	33	2
Value of U.S. dollar versus Yen	2	33	29	34	2
Value of U.S. dollar versus Yuan (Renminbi)	2	28	35	32	3
My organization's pricing power	1	33	50	15	2

*Access to Credit*

Most financial professionals report that their organization's access to credit has remained stable over the past six months. Sixty-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 67 percent giving a similar answer in regards to long-term debt. Thirty-one percent of respondents indicate that their organization's access to short-term credit has increased over the past six months, while 29 percent indicate increased availability for long-term credit. Only six percent of organizations now have less access to short-term credit while four percent of respondents indicate that their access to long-term credit has decreased over the past six months.

These figures are comparable to those 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	31%	29%
No change in availability	63	67
Decreased availability	6	4

Few financial professionals believe their organization's access to credit will deteriorate over the next 12 months. Only two percent of survey respondents believe their organization's access to short-term credit and/or long-term credit will decline over the next year.

Overall, sixty-seven percent of financial professionals expect little change to their organization's access to short-term credit while 68 percent expect their organization's access to credit will not change over the next year. Thirty-one percent of survey respondents believe that their organization will have greater access to short-term credit while 30 percent expect that their organization'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	31%	30%
No change in availability	67	68
Decreased availability	2	2

Twenty-five percent of financial professionals indicate their organization plans to increase the amount of short-term debt that it has outstanding over the next 12 months. At the same time, however, 23 percent of respondents indicate that their organization will reduce the amount of short-term debt that it has outstanding.

Thirty percent of companies will increase its outstanding long-term debt over the next 12 months, according to financial professionals. Forty-nine percent of survey respondents expect their organization will maintain its current level of long-term debt while 21 percent indicate that their organization will decrease the amount of outstanding long-term debt. Respondents to the June 2005 survey reported similar patterns for both short-term and long-term debt.

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

	Short-term debt	Long-term debt
Increase	25%	30
Remain the same	52	49
Decrease	23	21

## *Employment*

Continued confidence in the business conditions is also reflected in the decision to hire more employees. Thirty-seven percent of financial professionals report that their organization plans to increase its U.S. workforce over the next year. Forty-two percent expect that their organization will maintain its workforce at current levels while just 14 percent report that their organization intends to shrink its U.S. workforce in the coming year. In the June 2005, 40 percent of survey respondents indicated that their organization was likely to grow its U.S. workforce compared to the 16 percent that expected the domestic workforce to decrease.

Smaller companies are more likely to indicate an intention to grow its U.S. workforce. Forty-three percent of companies with annual revenues below \$250 million expect to expand its U.S. workforce while just 12 percent of similarly sized companies expect to shrink its U.S. employment. As a comparison, 31 percent of respondents from companies with annual revenues greater than \$5 billion expect to expand its U.S. workforce while 16 percent of large companies expect to decrease the number of workers that it employs in the U.S.

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

Increase	37%
Stay the same	42
Decrease	14
Unsure sure at this time	7

## **Methodology**

On November 30, 2005, AFP sent a 13-question survey to 4,000 of its corporate practitioner members that asked about their thoughts and expectations of business conditions. Through December 9<sup>th</sup>, AFP received 367 responses generating a response rate of approximately ten percent (adjusted for undelivered email). Surveys were also sent to prospective corporate practitioner members and to associate members. These groups generated an additional 137 and 159 responses, respectively. The total 663 responses to the survey are the basis of this report.