UNITED STATES: AN UNEASY FEELING

The chief financial officers of US companies have become gloomier about the outlook for the US economy. The latest Duke University CFO survey shows that 20.8% of the participants expect negative GDP growth over the next 12 months. The assessment about the own-company prospects has declined far less, leading to a record high gap with the outlook for the economy as a whole. This is a source of concern: how long can own-company confidence remain high if the overall environment continues to deteriorate? Interest rate developments will play a key role in this respect. Of those US companies that plan to borrow, two-thirds would reduce their investments in case of an increase of borrowing costs of 3 percent. It is a sobering message considering the expected tightening of monetary policy.

The chief financial officers of US companies have become gloomier about the outlook for the US economy. The recently released quarterly Duke University CFO survey[1] covering the second quarter, shows a leftward shift of the distribution of expectations for real GDP growth for the next four quarters (chart 1). The median estimate has dropped from 2.8% to 1.7% and the percentage of survey participants expecting negative growth over the next 12 months has risen from 12.3% to 20.8%. One can argue that, despite its increase, this number still seems rather low considering the steep decline in the optimism level about the outlook for the US economy (chart 2). The feeling is about as negative as during the first quarter of 2020 (Covid-19 crisis), the fourth quarter of 2012 and the third of 2010 (both quarters marked by fears about a double-dip recession) but remains well above the lows reached during the global financial crisis.

The gloom is striking considering the strength of the labour market and the difficulties of filling vacancies. Interestingly, the assessment about the own-company prospects has declined far less, leading to a record high gap with the outlook for the economy as a whole. Admittedly, CFOs are systematically more positive for their companies than for the US economy. This is unsurprising. After all, they have better information about their own companies than about the economy in general. Moreover, they can directly influence the destiny of their companies, which is clearly not the case for the broader economy.

However, in the latest survey, the difference is exceptionally large. This is a source of concern. How long can own-company confidence remain high when faced with a deterioration of the overall environment? Interest rate developments will play a key role in this respect. 60% of respondents think they have enough cash to finance operations in the next 12 months. However, of those companies that plan to borrow, half would reduce their capital spending plans if the borrowing costs were to increase by 2 percent. In case of an increase of 3 percent, two-third of firms indicate they would reduce their investments. It is a sobering message considering the expected tightening of monetary policy and its likely impact on corporate borrowing rates.[2]

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1. Source : The CFO Survey, Duke University and the Federal Reserve Banks of Richmond and Atlanta. The quarterly survey of 320 U.S. financial executives was conducted between 25 May and 10 June.
2. The CFO survey was conducted before the FOMC meeting of 14 and 15 June 2022. On the occasion of this meeting, the federal funds rate was raised with 75 basis points. The FOMC members project a federal funds rate at 3.8% at the end of 2023 (this projection corresponds to the midpoint of the projected appropriate target range) (source: Federal Reserve, Summary of Economic Projections, 15 June 2022).

CFO'S EXPECTATIONS FOR REAL GDP GROWTH OVER NEXT FOUR QUARTERS

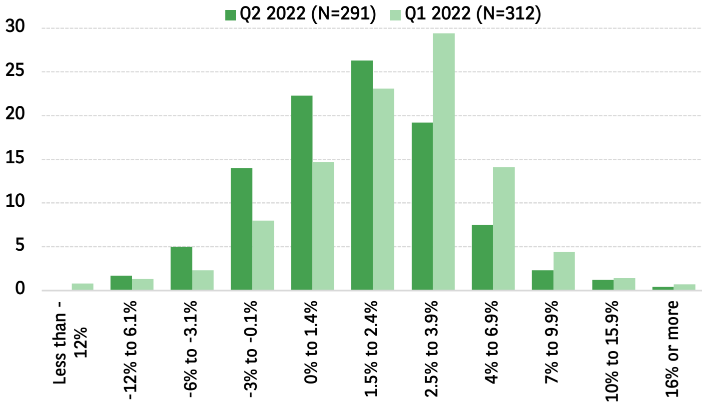

CHART 1 SOURCE: THE CFO SURVEY, DUKE UNIVERSITY AND THE FEDERAL RESERVE BANKS OF RICHMOND AND ATLANTA, BNP PARIBAS

US CFO OPTIMISM

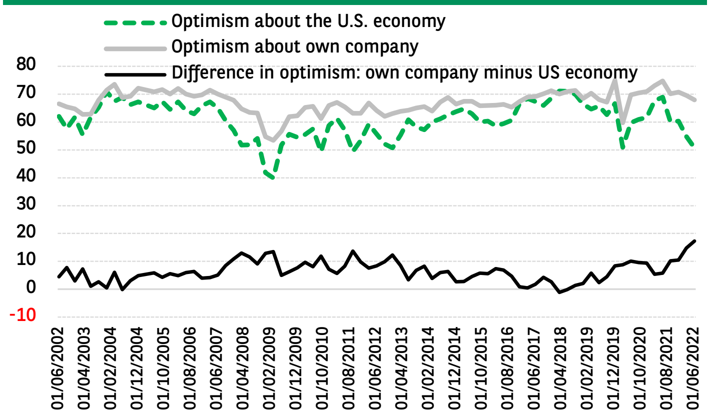

CHART 2 SOURCE: FEDERAL RESERVE BANK OF ATLANTA; BNP PARIBAS

> Of those US companies that plan to borrow, two-thirds would reduce their investments in case of an increase of borrowing costs of 3 percent. It is a sobering message considering the expected tightening of monetary policy.