

CFOs Believe Interest Rate Increases, Terrorism Risk Threaten U.S. Economic Growth

Although the economic recovery continues, with strong earnings growth predicted in the coming year, risks that include domestic terrorism, interest rate increases and wage inflation could threaten both economic growth and earnings.

These are the findings of the latest Duke University CFO Outlook Survey, which asks chief financial officers from both public and private companies and from a broad range of industries, geographic areas and revenue levels about their economic projections. The survey, completed June 16, has been conducted quarterly for the past nine years by Duke's Fuqua School of Business.

Capital spending is expected to increase at two-thirds of companies over the next 12 months, with the increase averaging 4.3 percent. Eighty-seven percent of firms predict earnings will grow, with the increase averaging 13.2 percent. While still positive, these capital spending and earnings growth expectations are lower than reported last quarter.

According to the survey results, the most significant risk to the U.S. economy is domestic terrorism, which 43 percent of companies rank among their top three risks. Another 15 percent of respondents rank the situation in Iraq as one of the top risks to their firm.

Thirty-eight percent of corporations list rising interest rates as one of their biggest concerns in the coming year. If interest rates were to increase by 125 basis points in the coming year, 56 percent of firms say their earnings growth would be dampened. Another 27 percent say their capital spending would grow more slowly, and 24 percent say that hiring would slow. More than one-third of CFOs report that wage increases are among the top risks their corporations face in the next 12 months. Across the sample, 95 percent of firms predict that their wages will rise, with an average increase of about three percent.

One-third of CFOs cite price inflation as a top risk. Prices are expected to increase at 59 percent of firms in the next year, with price inflation averaging 2.1 percent.

Only one-in-five firms list the high price of oil as a major concern during the next 12 months. If the price of oil remains near its current level, half of the companies say their earnings will grow more slowly, and less than one-in-five say their investment spending and hiring plans would be dampened.

National Cell Phone Directory Could Be on the Horizon

Today, many Americans place a high priority on keeping their home phone numbers private, and slightly more than a third of Americans nationwide have unlisted home numbers. With the birth of the National Do-Not-Call Registry and consumers using cellular phones in place of land lines, they are utilizing other alternatives to keep away unwanted telemarketing calls.

A new initiative being introduced on Capitol Hill by Sen. Barbara Boxer (D-Calif.) and Sen. Arlen Specter (R-Pa.), S.F. 1963—the “Wireless 411 Privacy Act”—would mandate that a consumer must “opt-in” to be included in a possible 411 directory for mobile phone numbers. The permission needed by consumers would ensure that cell phone users would not face a saturation of unwanted calls. Under the proposed bill, cellular carriers must first get existing customers to authorize the inclusion of their mobile numbers in the 411 database, and for new customers, carriers must clearly and conspicuously give them the option to decline.

Congressional findings show that there are roughly 150 million wireless subscribers in the United States, up from approximately 15 million subscribers just a decade ago. Wireless phone service has proven invaluable to millions of Americans because of its mobility, and the fact that government policies have expanded

opportunities for new carriers to enter the market, offering more choices and ever-lowering prices for consumers. The congressional research report also shows that in addition to the benefits of competition and mobility, subscribers also benefit from the fact that wireless phone numbers have not been publicly available. Up until now, the privacy of wireless subscribers has been safeguarded and thus vastly diminished the likelihood of subscribers receiving unwanted or annoying phone call interruptions on their wireless phones.

A key concern for many lawmakers is how this wireless 411 list could get into the hands of those who do telemarketing. One of the largest wireless carriers, Verizon Wireless, which is not participating in the directory citing customer privacy concerns, says it won't sell the wireless directory to third parties. Privacy advocates say it would be in wireless carriers' best interest to keep their word and keep their customer numbers out of telemarketers' hands.

The wireless industry believes that the wireless 411 directory was born out of consumer demand—with small businesses most interested. Still, some lawmakers aren't supporting this belief, and are working to put a law in place to protect consumers.

Americans Tightening Wallets for Summer Vacations

The average American is planning to spend 5.3 percent less this year on summer vacations. According to the annual Summer Vacation Survey conducted by Myvesta, a non-profit consumer education organization, the average summer vacation will cost \$2,252 this year, down from \$2,378 in 2003.

"While we have seen a slight rebound in our economy over the past few months, there hasn't been a big enough surge to give people the confidence to spend more on their summer getaways," said Pam Rhode, president of Myvesta. "People who are taking trips are looking for more value and a lower price tag."

Of those taking a vacation, 77.8 percent plan on using a credit card to pay for all or part of their trip, and 29.3 percent plan on taking three or more months to pay for their vacation charges. If the average vacation cost of \$2,252 is placed on a credit card and only the minimum payment is made, it will take almost 33 years to pay off the balance and cost an additional \$5,687 in interest payments. That calculation assumes an 18 percent interest rate and a monthly minimum payment of 2 percent.

Of those surveyed, 41 percent plan on taking a trip this summer, down from 48.5 percent in 2003. Approximately 53 percent of Americans said they were not taking a summer vacation while 5.4 percent are undecided.

People in the West plan to spend the most on their summer vacations with an average of \$2,566. Northeast residents came in a close second with an average of \$2,405. Those in the South plan on spending \$2,199, and people in the Midwest plan on spending \$1,802.

The Myvesta Summer Vacation Survey was conducted May 14-16 in a random telephone survey of 1000 adult Americans.

Consumers With at Least One Open Mortgage Have Higher Credit Scores

Experian Consumer Direct, a provider of online direct-to-consumer credit reports and products, recently announced the results of a nationwide study on the effects of mortgages on consumer credit scores. Nationwide and statewide results can be found on the Experian National Score Index site. Overall, the study found that:

- The average Experian PLUS Score for consumers with at least one open mortgage is 716 vs. 667 for consumers who do not have an open mortgage.
- The average mortgage amount is approximately \$136,000 for U.S. consumers, with only 10 percent of consumer mortgages exceeding \$250,000.
- Throughout the year, the average number of credit inquiries for home loans is highest in the month of July.

"Buying a home is a big step, especially for your credit," said Ed Ojdana, president of Experian Consumer Direct. "Whether you are applying for a new mortgage, refinancing a current mortgage, or taking out a home equity line of credit, your credit history plays a significant role in the approval, interest rates, and terms of your new financial accountability. That's why it is important to check your credit report before you take these steps so that you may determine how creditworthy you appear to lenders."

The Experian study was compiled using the Experian National Score Index, which is based upon a nationwide sampling of three million consumer profiles. The index is formulated using Experian's consumer credit score model, called the PLUS Score. Experian's PLUS Score is a numeric representation of financial behavior, based on information found in a credit report. It can range from 330 to 830 with a higher score indicating a lower credit risk.

Did You Know???

- The collection industry saves the average American family of four \$331 a year. This represents money they would have spent in increased cost of goods and services, if businesses raised their prices to cover their losses to bad debt instead of recovering the revenue through a collection agency.