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CFO JOURNAL

CFOs Brace for Potential Recession in 2020

Chief financial officers are cutting costs and hoarding cash to ride out an expected downturn.

A Duke University professor overseeing a new survey of chief financial officers expects companies may hold off on some investments because of the coming presidential election and economic factors such as trade disputes between the U.S. and some of its main trading partners, including China. PHOTO: ERIC RISBERG/ASSOCIATED PRESS

By Nina Trentmann

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Chief financial officers are bracing for a recession, cutting costs and hoarding cash to ride out an expected downturn ahead of next year's presidential election, new research indicates.

Fifty-six percent of CFOs at U.S. companies said they are preparing for a recession, which economists define as two consecutive quarters of declining performance across an economy, according to a survey conducted by Duke University's Fuqua School of Business. More than half of all finance chiefs expect the U.S. to be in a recession by the end of 2020, according to the survey, which was released Wednesday.

Yet companies are still optimistic about the outlook for their own businesses, with 43.2% stating they are more upbeat, compared with 35.1% in December 2018.

"Companies are worried about the big picture," said John Graham, a Duke University professor who oversees the survey. "At the same time, their orders are still coming in reasonably strong right now, so for their own company's circumstances and plans, things look good in the short run."

CFOs say they are pursuing cost-reduction efforts, paying down debt, extending maturity dules of their debt and locking in low interest rates to prepare for a potential downturn, raham said.

Finance chiefs are also strengthening relationships with lenders to make sure they have enough liquidity, and preserving corporate cash instead of investing it to expand their businesses, he said. "Companies are doubling down and focusing on their core business," Mr. Graham said.

Wednesday's survey echoed sentiment in a recent Association of International Certified Professional Accountants report, in which finance executives indicated lower expectations for revenue and profit growth, as well as caution around capital spending.

U.S. business investment and corporate profits fell in the third quarter, even though gross domestic product grew at a stronger than expected 2.1% annual rate, according to the U.S. Commerce Department.

Sameer Bhargava, CFO at Clark Construction Group LLC, said the private Bethesda, Md.-based construction business has a project backlog of about two years, which is expected to soften the immediate blow the company could suffer from a recession.

Clark also has done some scenario planning, worked to strengthen its balance sheet and has sought to diversify its project mix across sectors, size and geography. "We have a plan if the downturn happens," Mr. Bhargava said.

Index provider MSCI Inc. is prepared for a downturn, but also for continued growth, finance chief Linda Huber said. "The issue is, of course, how much longer can the expansion continue?" Ms. Huber said. "We will see what happens."

CFOs expect their companies' earnings to grow by 4.5% next year, according to the latest Duke survey, unchanged from December 2018. Finance chiefs forecast their companies' revenue will rise by 5.5%, compared with 4.9% in the prior-year period, but see a slowdown in hiring to 3.0%, versus 3.6% in December 2018.

Companies may pause some investments until after next year's presidential election.

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"The election will cause things to slow down, and other economic factors add to that," Mr. Graham said, pointing to ongoing tariff disputes between the U.S. and some of its main trading partners, including China.

U.S. and Chinese trade negotiators are reportedly laying the groundwork for a delay of a fresh round of tariffs set to kick in Dec. 15, but a more comprehensive deal between the two countries is still in the works.

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