



2010

2010 AFP  
Business Outlook  
Report of Survey Results

Underwritten by



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Each year, the Association for Financial Professionals (AFP) surveys its members to learn their views on the economy in the coming year and beyond. In the aftermath of the global financial crisis, Wells Fargo considers the findings of 2010 AFP's Business Outlook Survey to be especially valuable.

As we emerge from the crisis into a "new normal" economic environment, corporate finance and treasury officers play pivotal roles in positioning their companies for what's to come. As they make strategic decisions based on their assumptions and expectations of economic conditions, staffing levels, credit availability, interest rates, and more, they have a powerful impact on the economy itself.

The 2010 AFP Business Outlook Survey was conducted in December 2009. In February 2010, we asked senior economist with Wells Fargo Securities, Mark Vitner, to review the survey findings and comment on them in light of what leading economic indicators are showing in the year's first quarter. We are pleased to provide you with both the survey and the update.

# AFP Business Outlook Survey Review and Update

Mark Vitner, Managing Director & Senior Economist  
Wells Fargo Securities  
February 2010

## Survey respondents' optimism is on track

Economic reports for the first part of 2010 suggest the optimism expressed in the 2010 AFP Business Outlook Survey was well placed. Forty-five percent of financial professionals responding to the survey said they expected business conditions to improve in 2010, while just 11 percent expected business conditions to turn down again. Early evidence suggests a good part of the solid rebound in economic activity reported for the second half of 2009 is carrying over into 2010. Reports on employment, retail sales and manufacturing activity all suggest the economy grew at a solid pace during the first few weeks of 2010.

One of the pleasant surprises during early 2010 is that consumer demand appears stronger than expected. Retail sales rose 0.5 percent in January and are up at an 8.8 percent annual rate over the past three months. While part of that strength reflects swings in motor vehicle sales and higher gasoline prices, even the core measure of sales excluding automobiles, gasoline, and building products is up at a 5.6 percent pace. Spending at department stores and discounters has been particularly strong and most retailers said they were either satisfied or pleasantly surprised by the strength of holiday sales this past year. The news on the employment front has also improved slightly more than expected, with hours worked increasing and the unemployment rate showing a surprising 0.3 percentage point drop in January.

## Concerns are justified

While survey respondents were notably more upbeat than in the 2009 survey, a large proportion of them believe the economy has not yet entered a period of sustained economic growth. The extraordinary stimulus put in place by the federal government and Federal Reserve is thought to be responsible for a good part of the economy's recent performance, and a high proportion of financial professionals remain concerned about the strength and viability of consumer demand over the coming year. Other leading concerns include worries about the persistence of large federal budget deficits, the lack of access to corporate credit, and rising health care costs.

These concerns appear to be fully justified. Fifty-one percent of survey respondents said they believe the federal budget deficit will be an important factor affecting business decisions in 2010. So far, the news on that front has been negative, with the Obama Administration announcing a budget for fiscal 2011 that results in a much larger deficit than expected.

Financial professionals are equally concerned about access to corporate credit, with fifty-one percent citing access to corporate credit as a critical factor affecting business decisions in 2010. Early reports on the credit front tend to support those concerns. Bank lending shows loans outstanding continuing to contract during the first few weeks of 2010. The most recent survey of senior lending officers shows banks have stopped tightening credit standards on many types of loans, although none report unwinding any of the tightening that took place over the previous two years. In addition, credit demand from small and middle market companies continues to decline, indicating businesses are continuing to deleverage.

Together we'll go far



## **Dollar value creates pleasant surprises**

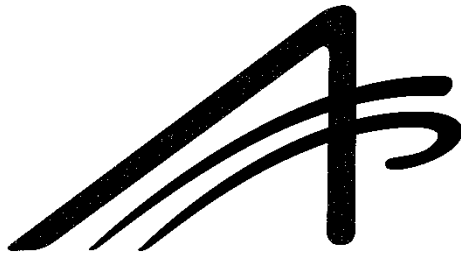
Fifty-six percent of survey respondents said they expected the dollar to decline further against the Euro, and 46 percent expected declines against the Yen and Yuan as well. The survey was conducted before the lingering debt problems in Greece developed into a full borne crisis. In mid February, the dollar soared to its highest levels in nine months versus the Euro.

The surprising strength of the dollar and tightening in monetary policy by the Bank of China also have helped restrain commodity prices. Eighty-four percent of respondents said they expected energy costs to increase further in 2010. So far, prices have gone the other direction, even though the colder than expected weather has boosted household demand for heating oil and natural gas.

Relatively few financial professional expressed concern about inflation in 2010. Most expect prices to rise less than 2 percent in 2010, and that forecast is in line with consensus expectations. Inflation data during the early part of the year tend to be quite volatile, however, with the weather tending to influence swings in food and energy prices. The colder than usual weather in the south and unusually wet weather in southern California early this year will likely lead to a jump in prices for fresh fruits and vegetables.

## **Key indicators to watch**

All in all, respondents to the AFP survey appear to have a pretty good read on the economy's momentum going into 2010. Given their concerns raised in the survey and the tone of recent economic indicators, we believe the key indicators to watch in early 2010 will continue to be employment data, retail sales, consumer confidence, and weekly and monthly data on bank lending and money growth. If the employment and consumer spending data continue to come in better than expected, there is a good chance economic conditions will exceed the expectations expressed in the AFP survey. If employment and spending falter, however, we may have to wait until the second half of 2010 or even later for a sustainable economic recovery to take hold.



*Association for  
Financial Professionals*

# **2010 AFP BUSINESS OUTLOOK SURVEY**

Underwritten by:



**Key Results**

December 2009

## 2010 AFP Business Outlook Survey

The U.S. economy will continue strengthening at a modest pace in 2010. That is the view of U.S. financial professionals based on results of a recent survey conducted by the Association for Financial Professionals (AFP). While more than a quarter of respondents indicate that their organizations will further shrink their payrolls 2010, 46 percent expect that their organizations' workforce will be stable in the new year.

Financial professionals are focusing on a number of factors that they think will affect the degree to which the U.S. economy recovers in the new year: consumer demand, the growing Federal budget deficit, rising health care costs and access to corporate credit. In the case of access to corporate credit, fewer organizations than in previous AFP surveys report that credit had become scarcer during the past six months, while only 16 percent report that it had become more plentiful. Further, only a quarter of financial professionals expect their organizations' access to credit will improve in 2010.

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 in December in each of the past six years to track their outlook of future business conditions. AFP thanks Wells Fargo for underwriting the *2010 AFP Business Outlook Survey*. 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.

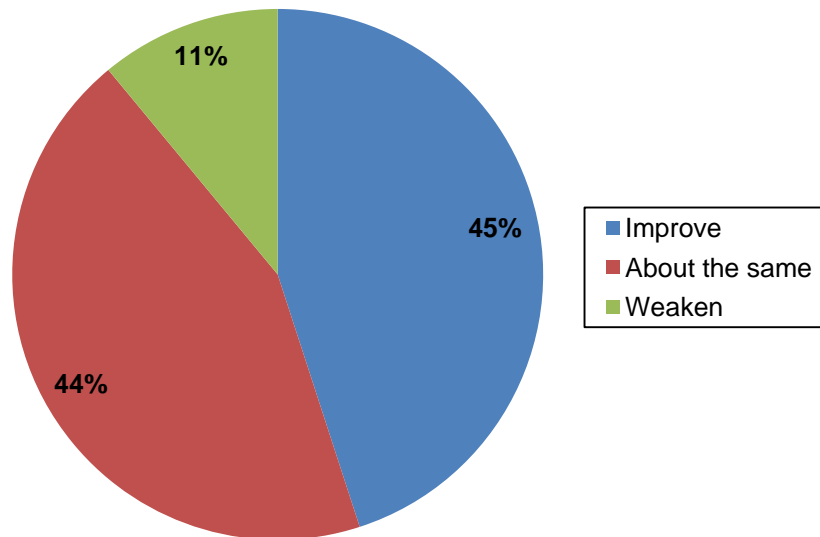
### *GDP Growth, Inflation and the Factors that Will Affect Growth*

The U.S. economy began 2009 the same way it ended 2008: in free fall. Gross domestic product (GDP) declined 6.4 percent on an annualized basis during the first quarter and contracted 0.7 percent during the second quarter. But the historic monetary and fiscal stimulus programs enacted by the federal government and the Federal Reserve have helped stabilize the economy to the point that many economists and analysts believe the recession that had started in December 2007 ended sometime during the late summer/early fall of 2009. The U.S. economy actually *grew* 2.8 percent (on an annualized basis) during the third quarter of 2009, while non-farm payrolls contracted at their slowest pace in nearly two years in November.

In the wake of all these developments, financial professionals are increasingly optimistic about business conditions in 2010. Forty-five percent of financial professionals expect business conditions will improve in 2010, while 44 percent expect business conditions will remain the same. Just 11 percent of respondents believe that business conditions will resume deteriorating in 2010.

These results represent a sharp reversal from the survey findings in December 2008—when both the economy and the financial markets were rapidly deteriorating. Those developments did little to support confidence in the future. Fifty-five percent of respondents to the *2009 AFP Business Outlook Survey* expected (correctly) that business conditions would continue to deteriorate in 2009.

**Expected Change in Business Conditions in 2010**  
(Percentage Distribution)



While there has (as of the writing of this report) been no official announcement by the National Bureau of Economic Research, many economists and market observers believe that the recession that started in December 2007 ended during the latter part of the summer or early part of the fall of 2009. Even so, most financial professionals (91 percent) do not believe that the U.S. economy has yet entered a period of sustained economic growth. Eighteen percent of survey respondents believe that sustained economic growth will begin during the first half of 2010 while more than half believe a bona fide recovery will not occur until the latter half of 2010. Nearly a quarter of financial professionals believe the U.S. economy will not enjoy a sustained period of economic growth until at least 2011.

**Expected Start of Sustained Economic Growth in the U.S.**  
(Percentage Distribution)

The U.S. economy already is in a period of sustained economic growth	9%
Not until the first half of 2010	18
Not until the second half of 2010	51
Not until at least 2011	22

The U.S. economy expanded in the third quarter of 2009—posting the first positive gross domestic product (GDP) growth rate in five quarters. Survey respondents expect this trend to continue in 2010. Financial professionals expect GDP will grow at a modest rate in 2010, with the median GDP growth prediction at 2.0 percent. Thirty-six percent of survey respondents believe the U.S. economy will grow at a rate between 2.0 and 2.9 percent during the year while 26 percent expect the growth rate will be between 1.0 and 1.9 percent. Seven percent of financial professionals anticipate that the U.S. economy will contract again in 2010 while 15 percent expect a growth rate of at least 3 percent. For a perspective, participants in last year’s survey anticipated the U.S. economy would contract 0.3 percent in 2009.

**Expectations for 2010 GDP Growth  
(Percentage Distribution)**

+3.0% and above	15%
+2.0% to +2.9%	36
+1.0% to +1.9%	26
0.0% to +0.9%	16
-0.1% to -1.0%	3
-1.1% to -2.0%	1
Less than -2.1%	3

Compared to the previous year, 2009 saw a reversal in terms of prices—especially compared to the first half of 2008 when rising commodity prices fueled inflationary concerns. In fact, 2009 was notable for exhibiting signs of *deflation* rather than *inflation*. The consumer price index (CPI) declined 0.2 percent between October 2008 and October 2009 while core CPI (which excludes the volatile energy and food components) grew at a modest 1.7 percent pace during the same period.

Financial professionals expect inflation will remain in check in 2010, with the median prediction for CPI growth at +0.7 percent. Forty-four percent of financial professionals anticipate consumer prices will increase between 0.1 percent and 1.0 percent during 2010 while 27 percent expect CPI to increase between 1.1 and 2.0 percent during the next year. But a significant share of financial professionals expects CPI to be flat or even slightly negative. Seventeen percent of financial professionals look for consumer prices to remain stable over the next year or to decline by no more than 0.9 percent. Only two percent of financial professionals expected CPI would fall by at least 1.0 percent during 2009.

**Expectations for 2010 CPI Growth  
(Percentage Distribution)**

More than +4.0%	1%
+3.1% to +4.0%	1
+2.1% to +3.0%	8
+1.1% to +2.0%	27
+0.1% to +1.0%	44
-0.9% to 0.0%	17
-1.0% or less	2

While a number of factors will influence the direction of the U.S. economy in 2010, financial professionals focus on four issues that will impact the rate of economic growth (or contraction) over the next 12 months: consumer demand (and the impact that unemployment has on it), the federal budget deficit, access to corporate credit and rising health-care costs. Fifty-eight percent of survey respondents see consumer demand/unemployment as a major factor that will drive an economic recovery in 2010.

Fifty-one percent of survey respondents believe that the rising Federal budget deficit will be an important factor affecting business conditions. This represents an increase from the 43 percent of December 2008 survey respondents and the 31 percent of December 2007 survey respondents who cited the budget deficit as an important factor. The increase is undoubtedly the result of the dramatic rise in the deficit that was a consequence of the recession and the economic stimulus plans enacted to stabilize the economy.

Fifty-one percent of financial professionals also cite access to corporate credit as a critical factor affecting 2010 business conditions. While this is a decline of 24 percentage points from the December 2008 survey, it represents a seven-percentage point *gain* from the results in the December

2007 survey. Half of financial professionals also see rising health care costs as factor impacting 2010 business conditions, virtually unchanged from the 48 percent indicating the same in last year's survey.

Other areas of concern include:

- Value of the U.S. dollar (45 percent versus 44 percent in December 2008)
- Rising/continuing mortgage defaults (44 percent)
- Access to consumer credit (40 percent versus 65 percent in December 2008).

**Factors Affecting Overall Business Conditions Over the Next 12 Months**  
(Percentage of Respondents)

	Dec 2009 Survey	Dec 2008 Survey	Dec 2007 Survey	Dec 2006 Survey	Dec 2005 Survey
Consumer demand/confidence/Unemployment	58%	78%	43%	51%	46%
Federal budget deficit	51	43	31	36	40
Access to corporate credit	51	75	44	#	#
Rising health care costs	50	48	46	58	58
Value of the U.S. dollar	45	44	82	59	46
Rising/continuing mortgage defaults	44	#	#	#	#
Access to consumer credit	40	65	49	#	#
Tax burden	27	#	#	#	#
Inflation	26	21	40	40	39
Business investment	22	44	23	25	25
Rising interest rates	22	10	19	39	75
Trade deficit	18	15	25	31	27
Declining home prices	18	54	70	#	#
Volatile energy costs	15	32	73	68	67
Competition from abroad	15	15	34	42	37
Volatile commodity prices	8	17	#	#	#
Terrorism (or fear of terrorism)	7	20	15	31	28
Deflation	4	23	#	#	#

#-not asked in particular year's survey

As the U.S. economy continues its slow recovery into 2010, financial professionals expect both the trade deficit and competition from abroad to grow. Seventy-two percent of financial professionals anticipate the trade deficit, which had narrowed significantly during the latter half of 2008 and during most of 2009, will expand once again in 2010. On a related issue, two-thirds of respondents believe that competition from abroad will increase as the economy recovers.

Financial professionals see both the trade deficit and competition from abroad increasing even as they expect the U.S. dollar to remain weak in 2010. Typically, a falling value in the U.S. dollar means imported products are relatively more expensive (for U.S. consumers) and exported products less expensive (for foreign buyers of U.S. goods and services). Still, the divergence between the value of the U.S. dollar and size of the trade deficit appears to be more reflective of financial professionals' belief that global trade activity will increase across the board after falling precipitously a year ago. Fifty-six percent of survey respondents expect the U.S. dollar will devalue further against the Euro while 46 percent expect the same against the Yen and the Yuan.

After oil prices hit their peak in July of 2008, energy costs plummeted sharply. But they began rising as the value of the U.S. dollar fell. Eighty-four percent of financial professionals expect energy costs

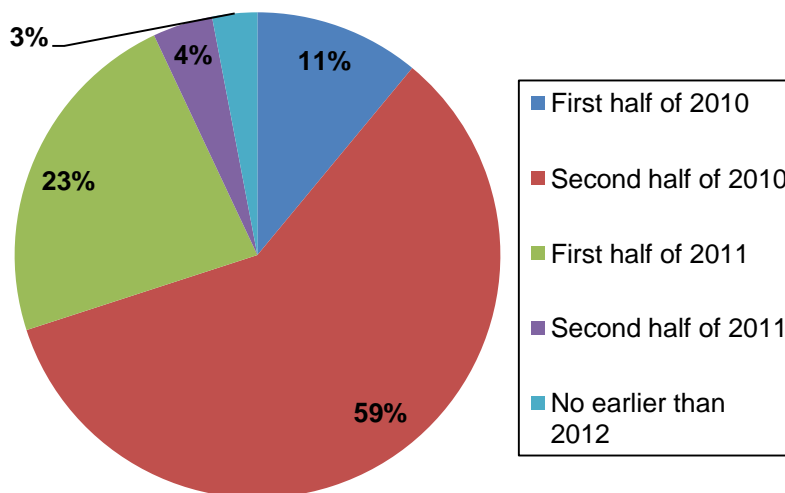
to increase further in 2010. Sixty-eight percent of survey respondents also expect the growth rate of inflation will grow over the next year, but only seven percent anticipate it will rise significantly.

**Expected Change in Key Metrics Over Next 12 Months**  
(Percentage Distribution)

	Increase significantly	Increase slightly	No change	Decrease slightly	Decrease significantly
Trade deficit	21%	51%	17%	10%	1%
Competition from abroad	19	49	29	3	*
Energy costs	13	71	14	2	*
Growth rate of inflation	7	61	28	4	*
Interest rates	3	73	23	1	*
Business investment	2	50	33	13	2
Value of U.S. dollar versus Yen	2	28	24	41	5
My organization's pricing power	1	26	54	18	1
Value of U.S. dollar versus Euro	1	25	18	49	7
Value of U.S. dollar versus Yuan (Renminbi)	1	20	35	40	6
Home prices	*	36	34	27	3
Value of U.S. dollar versus Canadian dollar	*	26	32	40	2
Value of U.S. dollar versus UK Pound	*	26	24	45	5

In reaction to the financial crisis and the rapidly deteriorating economy, the Federal Reserve Board's Federal Open Market Committee (FOMC)—which sets interest rates—lowered the fed funds target rate to near zero in December 2008. That rate has remained virtually unchanged since then. As the economy recovers, the Federal Reserve has begun unwinding a number of its monetary stimulus programs and will begin to raise the Federal funds target rate some time in the future. A majority of financial professionals anticipate that the FOMC will raise the Federal funds target rate during the second half of 2010. Eleven percent of survey respondents believe the first rate hike will occur sooner—during the first half of 2010—while 30 percent anticipate the first rate hike will not occur until 2011 or later.

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



## *Access to Credit*

The turmoil in the credit 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. Beyond some of the direct impacts—the drying up of credit, for example—the dramatic tightening of commercial credit had a number of additional detrimental effects on various stakeholders of the economy that still are being felt at the end of 2009.

Ninety-six percent of organizations have taken at least one defensive action in response to the credit market turmoil since September 2008, with staffing taking a major hit. Seventy-five percent of financial professionals who work for organizations that have taken at least one defensive action as a result of the credit crisis report that their organizations froze and/or reduced hiring as a result of reduced access to short-term credit since September of 2008. Sixty-three percent indicate that their organizations at least considered laying off staff. Two-thirds of organizations reduced their capital spending. Other actions taken by organizations to conserve cash in the face of reduced access to short-term credit include:

- Move all or most short-term investments to bank deposits and U.S. Treasuries (36 percent)
- At least consider closing locations/offices/plants (35 percent)
- Shorten the duration of the short-term investment portfolio (28 percent)
- Reduce current or planned inventory levels (28 percent).
- Tightened credit standards for trading partners (25 percent).

Should short-term credit conditions not improve by mid-year 2010, 55 percent of organizations expect to take additional defensive actions to conserve cash. Sixty-eight percent of organizations that expect to take at least one additional defensive action will reduce capital spending should credit conditions not improve in the next 180 days. Organization staffing also will continue to bear the brunt of any lackluster improvement in credit conditions. Sixty-two percent of financial professionals anticipate that their organizations will freeze or reduce hiring (or continue freezing or reducing hiring) while 61 percent indicate that staff reductions *may* be necessary to counteract continued inaccessibility to short-term credit. Other actions financial professionals expect their organizations will take to counteract continued tightened short-term credit include:

- Consider closing locations/offices (33 percent)
- Reduction in current or planned inventory levels (25 percent)
- Delay payments to vendors (23 percent)
- Tighten credit standards for trading partners (23 percent)
- Draw on credit facilities that are still available to build cash (22 percent).

**Actions That Organizations Have Taken (or Expect to Take)  
as a Result of Reduced Access to Short-Term Credit\***  
(Percentage of Organizations that Have Taken or Expect to Take Action)

	Actions take since the start of the credit crisis in September 2008	Expected Actions Should Credit Access Not Improve Over Next 3-6 Months
Freeze/reduce hiring	75%	62%
Reduce capital spending	67	68
Consider/execute staff reductions/layoffs	63	61
Move all or most short-term investments to bank deposits and U.S. Treasuries	36	10
Consider closing locations/offices	35	33
Shorten the duration of short-term investment portfolio	28	14
Reduce current or planned inventory levels	28	25
Tighten credit standards for trading partners	25	23
Delay payments to vendors	18	23
Draw on credit facilities that are still available to build cash	16	22
Reduce/eliminate share dividend payments	11	9
Delay/discontinue share repurchases	10	8
File for bankruptcy	1	1

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

Even as the economy and credit markets both improve and stabilize, most financial professionals—84 percent—report that their organizations’ access to credit has *not* improved over the last six months. Sixty-six percent of survey respondents indicate that their organizations’ access to short-term credit has remained the same since June 2009. Nearly equal percentages—16 and 18 percent—report that short-term credit access has either improved or deteriorated over the past six months. 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 Six Months\***  
(Percentage Distribution)

	Short-term Credit	Long-term Credit
Increased	16%	16%
Remained the same	66	67
Somewhat deteriorated access	18	17

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

Two-thirds of financial professionals project that their organizations’ access to short-term credit will remain stable in 2010. A quarter of respondents expect access to short-term credit will improve in 2010 while only eight percent anticipate a further deterioration in access. This is a sharp improvement from the survey results of just one year ago. In the December 2008 survey, 26 percent of survey respondents expected credit access would deteriorate further with just over a half of respondents believing that their organizations’ access to short-term credit would remain stable in 2009.

**Expected Change in Access to Credit in 2010\***  
(Percentage Distribution)

	Short-term credit	Long-term credit
Increased availability	25%	24%
No change in availability	67	68
Decreased availability	8	8

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

Twenty 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, however, 32 percent of respondents indicate that their organizations will reduce the amount of outstanding short-term debt. A year ago, 31 percent of organizations had planned to decrease their amount of outstanding short-term debt.

Twenty-one percent of financial professionals report that their organizations plan to increase their outstanding *long-term* debt over the next 12 months. Fifty-two 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. A quarter of respondents to the December 2008 survey indicated their organizations intended to increase their amount of outstanding long-term debt in 2009.

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

	Short-term debt	Long-term debt
Increase	20%	21%
Remain the same	48	52
Decrease	32	27

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

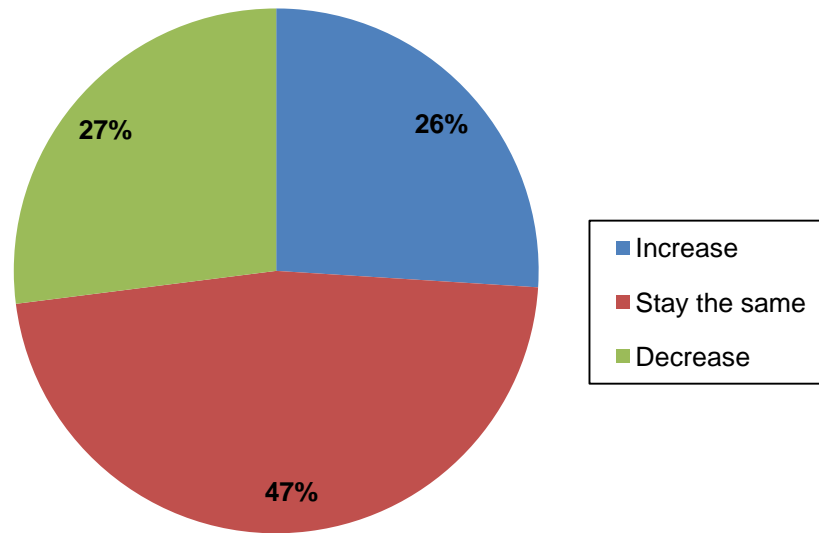
*Employment*

Through November 2009, the U.S. economy failed to create jobs on a net basis for 23 consecutive months. During this period, U.S. payrolls shed 7.16 million jobs. In recent months, the level of job losses has moderated significantly; indeed, in November of 2009, net job losses were “just” 11,000. While job losses may be slowing, there are few signs of a pickup in hiring activity.

Survey respondents validate this view. Forty-seven percent of financial professionals indicate that they expect their organizations to maintain payrolls at current levels through 2010. A nearly equal percentage expects payrolls will either grow or shrink over the next year (26 and 27 percent, respectively). As a comparison, just 16 percent of organizations expected to increase their payrolls in 2008 while 36 percent of respondents to the December 2007 survey expected their organizations to expand payrolls during 2008. Forty-six percent of respondents to the December 2006 survey indicated that their organizations were likely to grow their U.S. workforce in 2007.

Financial professionals from smaller organizations are more likely to expect growth in payrolls during 2010 than are respondents from larger organizations. Thirty-one percent of survey respondents from organizations with annual revenues less than \$1 billion expect their companies will add employees in 2010 compared to only 23 percent of those from organizations with annual revenues greater 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)



A third of financial professionals report that their organizations currently employ at least the same number of workers as they did before the start of the recession in December 2007. Many organizations with smaller workforces compared to two years earlier are reluctant to expand their payrolls back as the economy recovers. Just 13 percent of survey respondents from organizations with payrolls that shrank during the recession expect those payrolls to expand back to pre-recessionary levels before the end of 2010. Twenty-five percent of organizations anticipate returning to pre-recessionary staffing levels in 2011 while 32 percent expect it would be at least two years before their organizations' employment levels fully rebound. Three out of ten financial professionals do not expect that their organizations will expand their payrolls back to pre-recessionary levels of 2007.

**Expectation of Expanding Organizations' Payrolls Back to Pre-Recessionary Size**  
(Percentage Distribution of Organizations that Have Reduced Their Workforce over the Past Two Years)

By the first half of 2010	4%
By the second half of 2010	9
Sometime in 2011	25
Sometime in 2012 or beyond	32
No anticipation of returning to pre-recession employment levels at organization	30

Despite an unexpectedly positive employment report from the Bureau of Labor Statistics released in early December, financial professionals remain pessimistic about the job market over the coming months. Just 24 percent of survey respondents who responded to the survey following the December 4, 2009 release of the BLS data expect the U.S. economy will recover sufficiently to create jobs on a net basis during the first half of 2010. Forty-two percent of survey respondents anticipate net job creation to not start until the second half of 2010. Even if growth in payrolls occurs sooner than expected, most financial professionals are not confident that the economy is capable of creating jobs at a sustained pace for some time.

**Expectations of When the U.S. Economy Will Create Jobs on a Net Basis**  
(Percentage Distribution)

First quarter of 2010	7%
Second quarter of 2010	17
Third quarter of 2010	27
Fourth quarter of 2010	15
Sometime in 2011 or beyond	34

*Intervention in the Economy*

As a reaction to both the deep recession and the role that the financial system crisis played in it, many have called for reform of the system regulating the financial services industry. Financial professionals believe that regulatory reform would have only a modest impact in arresting future shocks to the economy; in addition, they feel such reforms will increase both their costs of doing business and their organizations cost of capital.

Sixty-seven percent of financial professionals believe that it is at least “somewhat likely” that proposed regulatory reform of the financial services industry will moderate future shocks to the economy. More specifically, six percent of survey respondents believe that it is “very likely” that any such reforms will moderate future shocks while 18 percent believe the affects will be positive from such reforms. Forty-three percent indicate that it is “somewhat likely” that reforms will have a positive impact. One-third of survey respondents believe that proposed regulatory reforms are unlikely to moderate any future shocks to the economy.

Fifty percent of financial professionals believe that it is “likely” or “very likely” that the proposed regulatory reforms to the financial services industry will increase their costs of conducting business. Another 32 percent believe that it is “somewhat likely” that their costs of conducting business will increase. In addition to increasing the costs of conducting business, many financial professionals also are concerned about the impact that the proposed regulatory reforms could have on their cost of capital. Forty-five percent of survey respondents believe that is either “likely” or “very likely” that their organizations cost of capital will increase if proposed regulatory reforms are enacted. Another 35 percent of financial professionals believe an increase in the cost of capital is “somewhat likely.”

**Anticipated Impacts of Proposed Regulatory Reforms to Financial Services Industry**  
(Percentage Distribution of Respondents Not Involved in Banking/Financial Services)\*

	Very Likely (5)	(4)	Somewhat Likely (3)	(2)	Not at All Likely (1)
Moderate future shocks to the economy	6%	18%	43%	24%	9%
Increase organizations' costs to conduct business	23	27	32	13	5
Increase organizations' cost of capital	19	26	35	14	6

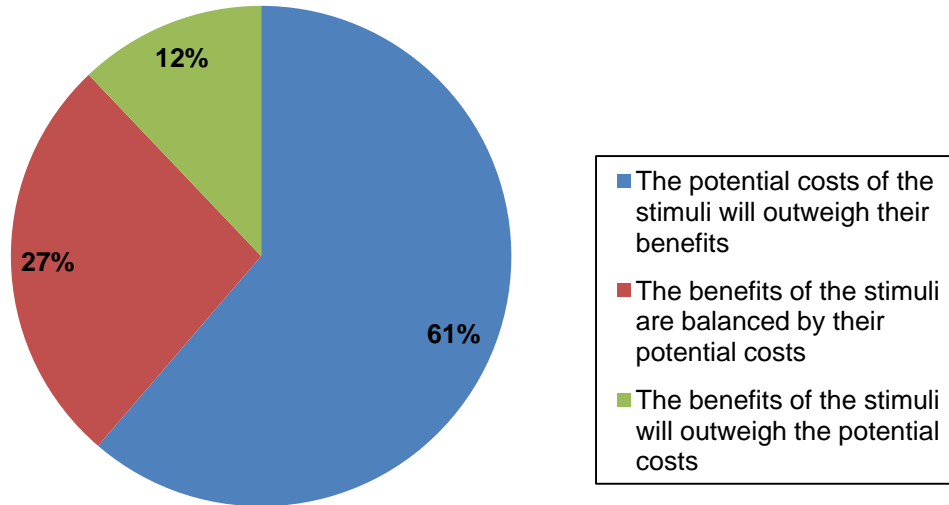
\*- Responses from participants from banks/financial services were not included in the analysis

Critics of the federal government's monetary and fiscal stimulus programs implemented to stabilize the economy have expressed concern about the costs of these actions, particularly the impact on long-term price stability and the growing federal debt. Others point out that the severity of the financial crisis justified these historic actions.

Financial professionals tend to agree with the former argument. Sixty-one percent of financial professionals believe the potential costs of the economic stimulus packages will eventually outweigh

their benefits. Twelve percent believe the benefits of the programs will outweigh the potential costs while 27 percent believe the benefits and potential costs are well balanced.

**Benefits Versus Potential Costs of Monetary and Fiscal Stimuli\***  
(Percentage Distribution of Respondents Not Involved in Banking/Financial Services)



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

## **Conclusions**

Overall, financial professionals anticipate the U.S. economy will continue to strengthen at a modest pace in 2010. While more than a quarter of respondents indicate that their organizations will further shrink their payrolls 2010, 47 percent expect that their organizations' workforce will remain stable over the next 12 months.

Financial professionals are focusing on a number of factors that they feel will affect the degree to which the U.S. economy recovers in 2010: consumer demand, the growing Federal budget deficit, rising health care costs and access to corporate credit. In the case of access to corporate credit, only a quarter of financial professionals expect their organizations' access to credit will improve in 2010.

## **Methodology**

On November 30, 2009 AFP sent a 25-question survey to its corporate practitioner membership that asked about their thoughts about and expectations of business conditions. Through December 11<sup>th</sup>, AFP received 717 responses generating a response rate of approximately 11 percent (adjusted for undelivered email). Surveys also were sent to prospective corporate practitioner members and to members who work for financial institutions and other vendor organizations. These groups generated 80 and 217 additional responses, respectively. The total 1,014 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 organization with annual revenues of \$1.5 billion. Forty-seven percent of respondents work for a publicly traded organization.

AFP thanks Wells Fargo for underwriting the 2010 AFP Business Outlook Survey. 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.

## **AFP EconWatch**

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