

Economic conditions snapshot: April 2009

Executives are slightly more positive about the bigger economic picture than they were six weeks ago, and some see hope for their companies toward the end of 2009. Strong majorities support international coordination of responses to the crisis and say protectionism would harm their nations' economies.

Nearly a quarter of executives expect their nations' economies to be in better shape by the end of June—significantly more than thought that six weeks ago—according to a survey in the field from April 13 to 17,¹ during the stock markets' recent rally. And 35 percent now expect an overall economic upturn by the end of 2009; slightly more expect an upturn in demand for their company's products or services by then.

As governments have struggled with the best approach to weathering the economic crisis, many supporting industries one way or another in recent months, executives' support for government action to bolster industries has waned a bit. Among those who do support action, most think the government should have oversight, at least at the board level, of the companies it assists.

More broadly, in the face of some industry and public calls for protectionist legislation, respondents to this survey—in every region and industry—see such legislation as harmful to national economies, and only 4 percent see it as helpful to their companies. Underscoring findings from another recent survey that trade flows will only be slowed temporarily as a result of the crisis,² more than two-thirds of executives expect China, with its export-led economy, to have greater influence on the world economy as a result of the crisis; 57 percent expect US influence to weaken.

¹The survey received 1,643 responses from executives around the world, representing the full range of industries, company sizes, and functional specialties.

²The survey, in the field in March 2009, asked executives around the world about the forces shaping the global economy. Sixty-four percent of respondents expect trade to slow three to five years from now, but more than 70 percent say the change will be temporary (five years or less in duration).



Jean-François Martin

International interests, government actions

Respondents see value in international trade, even in the face of a crisis. Strong majorities of executives in all regions believe regulations to restrict imports and exports would damage their countries' economies; the global average is 73 percent. Far fewer (only 37 percent), however, see harm to their companies' financial positions from such regulations, while only 4 percent say they think trade restrictions would improve their companies' financial positions. Executives at manufacturers and high-tech and telecom companies are the likeliest to see harm to their companies from protectionist regulation, at 51 percent and 44 percent, respectively.

Further, executives see value in maintaining international ties in response to the crisis: 70 percent say that, whatever the response, governments should coordinate it with their trading partners or other relevant countries.

Executives' enthusiasm for governments bolstering industries through the crisis is cooling. Though most respondents still think governments should support at least some industries through the crisis, a fifth now say no industries should receive government support (Exhibit 1)—a notable increase from the 14 percent who said the same in January in response to a similar question.³

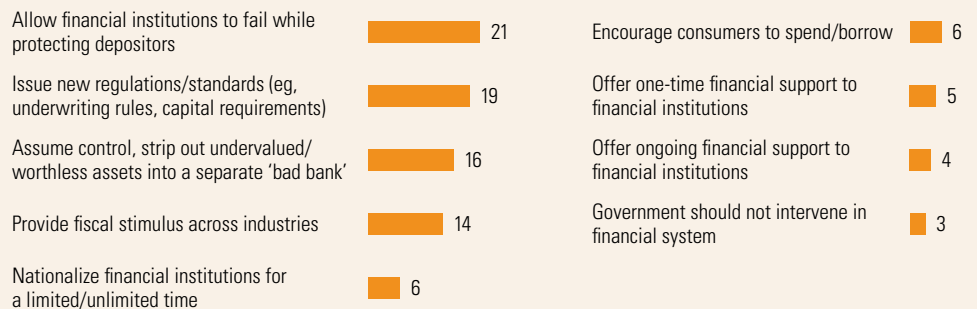
³“Which of the following statements best characterizes the role governments should play in supporting industries in the current financial crisis?”

Nearly a third of executives in North America say government shouldn't support any industry

Exhibit 1
Little agreement on how to restore liquidity

% of respondents,¹ n = 1,643

Single best approach government can take to restore liquidity to global financial system (regardless of whether such efforts have already been made in country)



¹ Respondents who answered “other” or “don't know” are not shown.



Similarly, only 14 percent say the best single approach to restoring liquidity would be providing a fiscal stimulus across industries. With regard to the alternatives, however, there is little agreement on what approach would be better.

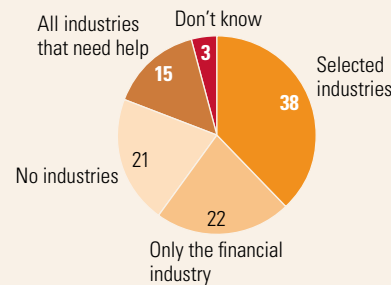
When governments do support industries, executives say, the governments should have a voice in many kinds of corporate decisions. Sixty-three percent say governments should have oversight at the board level when they offer a company support. More than 40 percent support governments having a say in compensation or replacement of top management (Exhibit 2).

While 47 percent favor the government supporting the financial industry in some way, 21 percent say the single best way to restore liquidity is to allow financial institutions to fail

Exhibit 2
Government’s role in corporate decisions

% of respondents,¹ n = 1,643

Private industries government should support through current economic turmoil



Conditions that should be placed on government support offered to companies

Government should...



¹ Respondents who answered “other” or “don’t know” are not shown.

Growth expected soonest in China and India

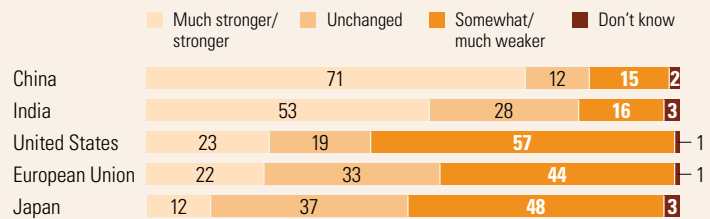
Executives expect the crisis to change the relative economic influence of some nations. A sizable majority—71 percent, far more than for any other country evaluated—expects China will emerge from the crisis economically stronger; more than half predict the United States will emerge weaker (Exhibit 3).



Exhibit 3
A changing balance of power

% of respondents, n = 1,643

For each country/region, what do you expect its condition to be (in terms of influence in the world economy) as it emerges from economic crisis?



Even now, just over half of respondents in China (and half in India) say they expect their nations' economies to be in better shape by the middle of this year. Worldwide, there is less optimism, with 22 percent of all executives expecting a moderate or substantial improvement (Exhibit 4). The proportion of all executives saying their economies are worse than they were in September 2008 is slightly smaller than it was six weeks ago.

Further, nearly 60 percent of respondents in China and two-thirds of those in India expect their countries' GDPs to grow in 2009. A majority of respondents in all the developed economies still expect their GDPs to decline in 2009, as has been in the case since autumn 2008.

Globally, the proportion of executives expecting an economic upturn by the middle of 2010 has increased by five percentage points, to 35 percent, since early March.



Exhibit 4
Improving expectations

% of respondents¹

Substantially worse Moderately worse The same Moderately/substantially better

How are current economic conditions in your country compared with conditions in early September 2008?

How do you expect your country's economy to be in the first half of 2009?



¹Figures may not sum to 100%, because of rounding.



Some companies see light at the end of the year

Overall, executives' medium-term expectations for their companies' profits and workforces remain depressed: 55 percent expect profits to decrease in the first half of 2009, and 52 percent expect to decrease the size of their workforces in the same span (in March 2009 the numbers were 53 percent and 50 percent, respectively). Though business isn't good, the survey results also indicate that company finances are, for the most part, sufficient without new external funding. Most companies aren't seeking external funding; only 29 percent have done so since September 2008 (Exhibit 5).⁴ Among those that have sought funds, nearly half report being able to get all of the funds they've sought, and another third at least some of those funds. Almost as many—nearly a third—report getting funds from new credit lines as from existing ones.⁵

⁴This figure is consistent with previous surveys since October 2008.

Throughout this period, the vast majority of respondents whose companies did not seek funding have said they did not seek it because they did not need it.

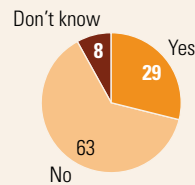
⁵Those who previously got only some of the funds they sought are significantly more likely than those who got all they sought to be seeking funds from new credit lines, private equity, and individual investors.

Exhibit 5

Stability in company finances

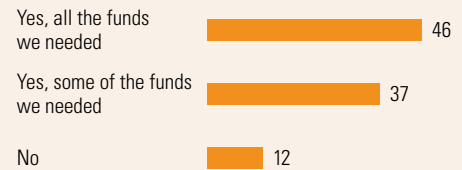
Since mid-September 2008, has your company sought external funding?

% of respondents, n = 1,643



Were you able to secure the funds you sought?

% of respondents,¹ n = 449



Sources of funding

% of respondents who sought funding¹



¹Respondents who answered "don't know" are not shown.

Looking further ahead, many executives—39 percent—expect demand for their companies' products or services to increase by the end of 2009, compared with 28 percent who expect a decrease. And most companies are actively pursuing growth opportunities: two-thirds of respondents say their companies are seeking growth through new customers in existing markets, and 61 percent through new products and

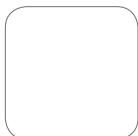
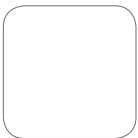
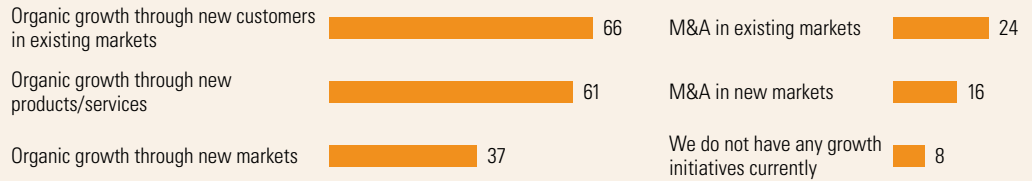


Exhibit 6
Seeking organic growth

% of respondents, n = 1,643

How is your company seeking growth?



Businesses focused on selling to other businesses are likelier than consumer-focused companies to expect an increase in demand; 42 percent of B2Bs, compared with 33 percent of B2Cs, see an increase on the horizon

services (Exhibit 6). The proportion introducing new products or services specifically to gain market share from weakened competitors has grown a bit since January 2009—to 40 percent, from 36 percent.

Finally, while about a third of all respondents say their companies are taking tighter control of functions or business units in response to the crisis, a majority are staying the course: 20 percent say reporting lines won't change, and 36 percent say no governance changes are in store. That more than half are taking no action is consistent with a finding from the March 2009 survey, when more than half of respondents thought their companies' management had handled the crisis well. ■

