THE BUSINESS COUNCIL

THE CONFERENCE BOARD

The Business Council Survey of Chief Executives
in Collaboration with The Conference Board

CEO Survey Results

May 2009

Message from the Vice Chairman

Dim as it may appear right now, Business Council members may finally see some light at the end of the recessionary tunnel. While there are clearly challenging and difficult times still ahead, less than 20 percent of the 69 respondents to our latest survey expect business conditions in their industry to deteriorate during the next six months—a significant turnaround from the 53 percent who felt that way only three short months ago. The signal is that, in at least some regions of the world, the bottom may have been reached.

However, there remains much to be concerned about. In the opinion of Business Council members, Europe and Asia are lagging behind the United States and China when it comes to signs of recovery. And the U.S. recession will likely be with us into 2010, along with uncomfortable unemployment rates. On the horizon are concerns that an inflationary environment awaits at a time when individual companies are seeing their pricing power decline.

The special section of this survey deals with health care issues and the policy agenda of the new administration in Washington. At the top of the list in the public policy field (and no surprise) is the need to return the U.S. economy to positive growth and restore confidence in business. When it comes to health care, Business Council members believe that a multi-payer system with a strong private component provides the most efficient delivery system.

Once again, we welcome The Conference Board's collaboration in this project and their valuable expertise in conducting this survey and analyzing its results.

Jamie Dimon
The Business Council

Top Economic and Marketplace Issues

Business Conditions Snapshot

Signs of Stability Begin To Emerge

The responses to the current Business Council member survey signal a possible bottoming in both the U.S. and global recessions. Current conditions within respondents' own industries have become less strained since January, as have conditions in most parts of the world. While the survey responses do not suggest that business activity is recovering, it is clear that the pace of decline, so severe in the previous survey conducted three months earlier, has moderated significantly.

In response to the questions on current conditions, very few (less than 7 percent) respondents say that conditions are "substantially worse" in their industry or in any of the major global regions. By contrast, most of the responses shifted into the "moderately worse" or "same" columns. Although these responses can hardly be considered optimistic, they are a marked improvement from January when 63 to 73 percent cited substantially worsening conditions in the United States, Europe, and the global economy, and 40 percent indicated substantially worsening condition in Asia and China.[1]

Table 1

Present Global Business Conditions Compared to 6 Months Ago

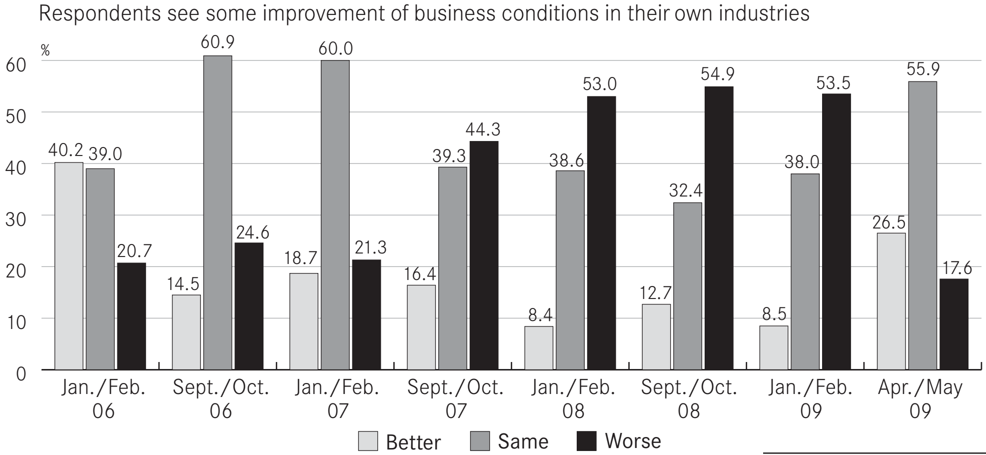
	Better			Same			Worse		
	Oct. 08	Feb. 09	May 09*	Oct. 08	Feb. 09	May 09*	Oct. 08	Feb. 09	May 09*
U.S.	1.4%	0.0%	17.4%	7.0%	2.9%	42.0%	91.6%	97.2%	40.6%
China	7.4	0.0	16.4	44.1	1.7	50.8	48.5	98.3	32.8
Asia	5.9	0.0	10.0	45.6	0.0	51.7	48.5	100.0	38.3
Europe	0.0	0.0	4.8	7.1	6.3	36.5	92.8	93.8	58.7
Global	0.0	0.0	7.7	13.0	1.5	38.5	87.0	98.5	53.8

* Current business conditions compared to January 2009.

Chart 1

Expected Business Conditions in Own Industry

Respondents see some improvement of business conditions in their own industries



1 The previous Business Council Survey was conducted in January 2009 and published in February. The data for this current survey was collected in April 2009 and released to members in May.

Business Outlook for Next Six Months Improves

Business Council members are noticeably more encouraged about business conditions in the next six months. Around one-third see conditions improving moderately in the United States and China, while less than 17 percent see conditions worsening. Interesting to note, Asia and (especially) Europe lag. The results for the global economy are more evenly split between those who think conditions will improve (25 percent) and those who believe that they will deteriorate (22 percent).

Nevertheless, as is the case with the current conditions assessment, the tenor of these responses, while falling well short of an optimistic view, is an improvement over last January's data, when almost 69 percent of respondents felt global business conditions would deteriorate over the first half of 2009. In the current survey, less than a quarter (22 percent) expect conditions to worsen. The outlook for Europe is a bit more dismal, with 40 percent expecting conditions to deteriorate over the next six months.

U.S. and China Lead; Europe Lags

What is striking about this survey from a global perspective is that the United States, which has led the rest of the world into recession, appears, with China, to be leading the recovery trend. The United States and China received the highest marks among the global regions, both in terms of current conditions and expectations during the next six months.

Europe, by contrast, appears to be, on balance, deteriorating. Almost 60 percent of Business Council members say conditions in Europe are worse compared to January (Table 1), and 40 percent expect them to continue to deteriorate during the next six months.

Table 2

Expected Global Business Conditions – Next 6 Months

	Better			Same			Worse		
	Oct. 08	Feb. 09	May 09	Oct. 08	Feb. 09	May 09	Oct. 08	Feb. 09	May 09
U.S.	7.1%	8.7%	33.8%	27.1%	27.5%	50.0%	65.7%	63.8%	16.2%
China	4.4	8.2	38.3	44.1	29.5	48.3	51.5	62.3	13.3
Asia	4.4	6.3	27.1	48.5	25.4	55.9	47.1	68.2	16.9
Europe	1.4	4.6	12.9	18.6	30.8	46.8	80.0	64.6	40.3
Global	2.9	9.4	25.0	23.2	21.9	53.1	73.9	68.8	21.9

Business Confidence Snapshot

As has been recent practice, The Conference Board calculates a summary business confidence measure for Business Council members. The overall confidence measure, which reflects the general survey responses, has improved considerably since the January 2009 survey.

Business Council members, however, are less confident with growth prospects for Europe. Respondents remain quite pessimistic in their assessment of both current conditions and in their expectations for an improvement in Europe over the course of the next six months.

There are five reply options for each question. A measure for each question is determined by assigning the following values to the replies: Substantially Better—100; Better—75; Same—50; Worse—25; Substantially Worse—0.

The Business Council Measure of U.S. Business Confidence is the average of the measures for questions 1, 2 and 3.

Business Council Measure of U.S. Business Confidence

	2005	*2006*		*2007*		*2008*		*2009*	
	Oct.	*Feb.*	*Oct.*	*Feb.*	*Oct.*	*Feb.*	*Oct.*	*Feb.*	*May**
Business Council Measure of U.S. Business Confidence	**49.8**	**54.3**	**44.4**	**47.8**	**38.2**	**31.1**	**32.1**	**25.9**	**50.0**
Current Economic Conditions vs. 6 Months Ago	48.9	55.0	44.3	46.7	34.8	24.7	23.6	7.5	43.5
Expectations for Economy, 6 Months Ahead	47.5	53.1	41.9	47.7	36.7	29.8	33.9	32.6	54.4
Expectations for Own Industry, 6 Months Ahead	52.9	54.8	47.1	49.0	43.0	38.9	38.8	37.7	52.2
Current Conditions in Own Industry vs. 6 Months Ago	52.4	54.8	45.7	48.0	38.6	33.2	31.7	12.7	45.3

Business Council Measures of Economic Conditions

	2005	*2006*		*2007*		*2008*		*2009*	
	Oct.	*Feb.*	*Oct.*	*Feb.*	*Oct.*	*Feb.*	*Oct.*	*Feb.*	*May**
Current Economic Conditions vs. 6 Months Ago									
United States	48.9	55.0	44.3	46.7	34.8	24.7	23.6	7.5	43.5
China	56.9	56.7	54.9	55.5	53.6	53.8	39.7	15.3	45.1
Asia	57.4	57.7	57.6	57.3	55.3	54.5	39.4	14.8	41.7
Europe	42.9	52.7	53.6	61.2	54.2	43.9	22.8	11.0	34.9
The global economy	54.5	54.7	47.6	53.6	47.0	38.5	27.5	8.3	38.1
Expectations for Economy, 6 Months Ahead									
United States	47.5	53.1	41.9	47.7	36.7	29.8	33.9	32.6	54.4
China	50.4	58.2	50.9	54.0	49.1	51.1	38.2	33.6	56.3
Asia	54.6	57.9	52.8	52.6	49.1	50.7	39.3	32.1	52.5
Europe	44.7	53.3	49.6	52.1	47.9	40.0	27.5	31.2	43.1
The global economy	48.5	54.9	46.4	52.1	44.8	36.4	31.5	32.1	50.8

* Question for May 2009 compares current conditions with January 2009.

Economic Stress Still Appears Most Intense in Manufacturing

The impact of the recession appears most intense in the industrial sector. Seventy percent of the companies in this sector are still experiencing worsening conditions compared to January.

Interestingly, less than 8 percent of financial services firms indicate that conditions in that sector today are worse than in January, although the turmoil that marked the industry at that time sets a very low standard for comparison. Finance and other manufacturing are the only industries in which very few companies are experiencing weaker conditions than in January.

Industrial companies also are more concerned about the outlook than their counterparts. Forty percent of industrial companies see conditions worsening in the next six months, while only 10 percent see an improvement.

The financial services sector represents a ray of hope. All of the member responses in this sector say that conditions would remain the same or get better—with 30 percent indicating that conditions would likely improve in the next six months.

Recession to Continue through 2009

In the prior survey, Business Council members expected sharp declines in U.S. economic activity in the first half of 2009. In the current survey, the overwhelming majority of respondents now expect the recession to continue throughout 2009—with fully two-thirds expecting the economy will not recover until 2010. Most members expect the unemployment rate to continue to rise, and 18 percent expect the rate to rise above 10 percent by year-end.

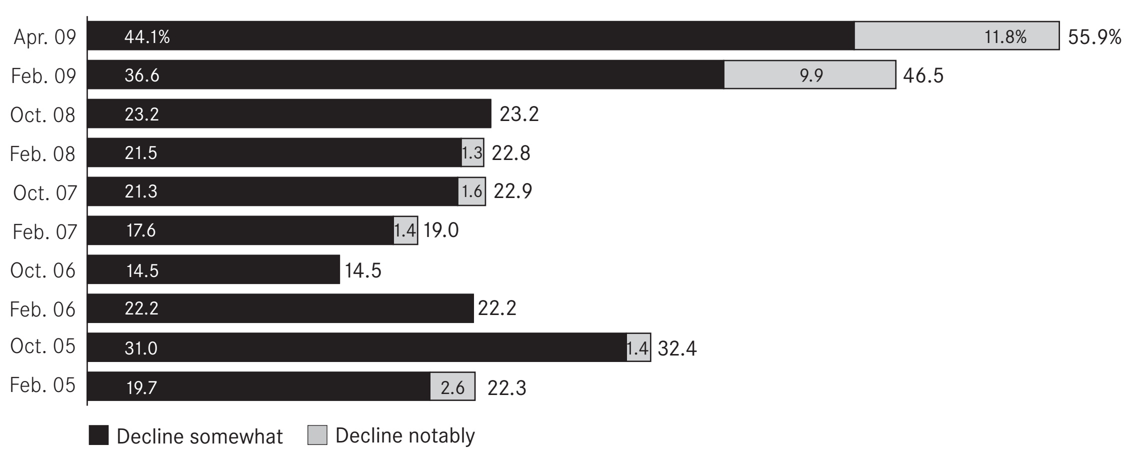
Downward Price Pressures Emerge for the First Time

Regarding the near-term inflation outlook and pricing power, Business Council members indicate that inflation is likely to remain the same or moderate slightly from its current 1.6 to 2.0 percent range—and their own pricing power, which has remained generally stable in recent years, is under some pressure. Fifty-six percent say their firm's prices will decline this year—up from 47 percent in the January survey. Nevertheless, when asked to look forward to 2010 and beyond to characterize the overall pricing environment, about 56 percent of respondents say inflationary pressures will dominate—up from 45 percent in January. Another 40 percent think inflation trends will stay as they are. Expectations of higher inflation are most prominent in pharmaceuticals, aerospace, consumer goods, transportation, and energy.

Chart 2

Firms Facing Increasing Pricing Pressures

Percent of firms stating their pricing power will decline



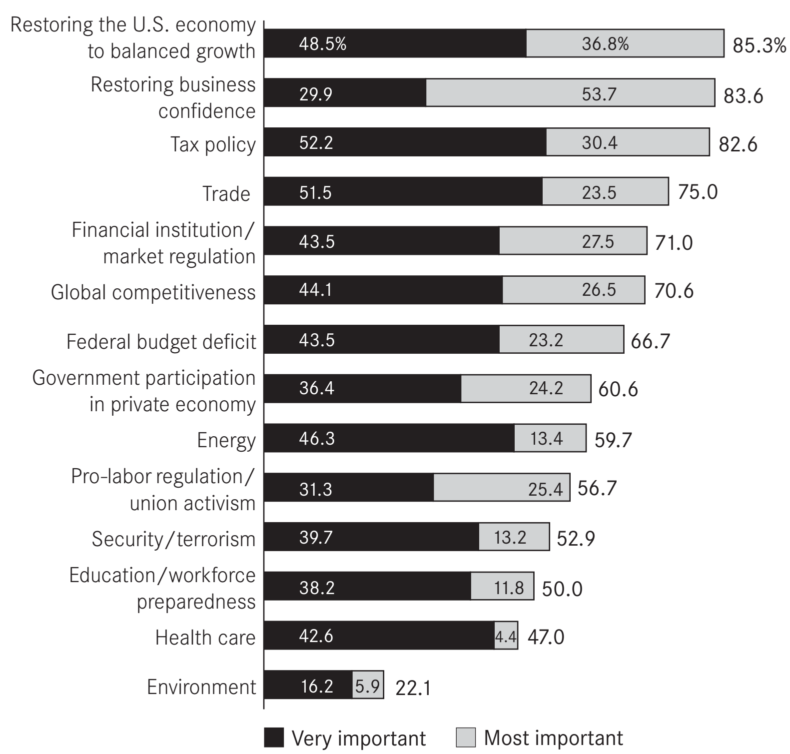
Top Policy Issues

Economic Issues Top the Public Policy Agenda

When asked about the importance of a broad range of public policy issues, not surprisingly, Business Council members see economic issues as the most critical. About 85 percent of the responses rank restoring business confidence and restoring the U.S. economy to balanced growth as “very important” or “most important” issues. Almost 54 percent say that restoring business confidence is a “most important” challenge. Tax policy and trade are ranked as “very important” or “most important” by 83 percent and 75 percent of respondents, respectively.

Equally interesting are the high scores that many of the other challenges received. More than 60 percent of respondents list financial institution and market regulation, global competitiveness, the federal budget deficit, government involvement in the private economy as “very important” or “most important,” while close to 60 percent do so for energy and labor regulation. Only the environment receives less than a 25 percent score in terms of importance. Indeed, one of the interesting shifts taking place is the rising importance of basic economic challenges, including the federal budget deficit, and a decline in specialized public challenges, such as education, health care, and the environment.

Chart 3
Economic Issues at Forefront of Public Policy Agenda



Federal Reserve Policy, Credit Conditions, and Housing

The current survey shows that Business Council members generally regard Fed policy as having an impact on the economy. Almost three-quarters of respondents say it has had some impact—up from about 50 percent in January. However, the survey indicates that members generally want the Fed to hold steady in its massive asset purchases and let the economy recover by itself. Only about one-third want the asset purchases to continue.

Interest rates are expected to remain low through 2009 and 2010. When asked about the level of the Fed funds rate in 2009, 90 percent believe that they will remain below 0.50 percent. Looking forward to 2010, about 80 percent think they will average somewhere between where they are today and 2.5 percent. The responses looking out to 2010 suggest that, despite the belief by the overwhelming majority of members that the longer-term environment is inflationary, the Fed is not likely to react to this inflationary threat with higher interest rates in the foreseeable future.

Credit conditions appear to be easing somewhat. While 18 to 34 percent of respondents are experiencing tighter credit conditions (depending on the capital market), the commercial paper and corporate bond markets appear to have improved for many companies. More than 46 percent say conditions in the corporate bond market have eased, and almost 40 percent are experiencing easier access to commercial paper.

Expectations for the housing market are improving, even though credit remains generally tight at banks. Almost 60 percent of respondents believe the housing turmoil is about over or is showing early signs of rebound—more than double the January response. However, bank lending, whether at large institutions or at regional and local banks, still appears constrained for business. Only about 15 percent of Business Council members indicate better access to credit in these institutions, although public data suggest that mortgage applications and access are up.

Health Care–Prevention and Wellness Should Be a Priority

The final set of questions was designed to assess the extent to which Business Council members' goals, priorities, and methods align with the Obama Administration and prospective Congressional actions. A few conclusions are particularly striking:

- Businesses want to continue to be a provider of health care to their employees and believe that a multi-payer system with a strong private component is the most effective method to provide access to high-quality health care.
- Prevention and wellness should be a top public policy goal, both to reduce the costs of the system and improve quality and outcomes.
- The path to health care reform is littered with risks, especially higher costs for business, individuals, and government, but over half believe the benefits of tackling the problem outweigh the risks.

Goals

Business Council members appear to be generally aligned with the range of the Obama Administration's health care reform goals. Prevention and wellness and lowering the cost of health care are the most important goals, but 70 percent indicate that providing coverage for every child and improved medical quality and outcomes are "very important" or "most important."

Means

In evaluating the various means for lowering health care costs, prevention and wellness and reforming medical malpractice are by far the most important, followed by paying for outcomes and not volume of service, increasing the use of generics, and more provider competition. Reform of Medicaid and/or Medicare is considered relatively unimportant.

Looking at the tools available to improve access, a multi-payer system with a strong private component and increased employer incentives are considered to be the most effective. Universal coverage by a single payer or universal coverage by government as the single payer are considered the least effective, with more than 43 percent of the responses indicating that the latter approach is not at all effective.

In looking at how to improve quality and outcomes, almost all of the options listed resonate to a greater or lesser degree with Business Council members. Once again, wellness, which is at the root of health care challenges, is the top pick. However, provider competition, better use of health IT and health care product innovation all receive high marks.

Priorities

Health care reform is a huge challenge and it is not clear how Congress intends to tackle the issues—all at once or in sequence. When asked for their opinion how to go about this mammoth task, Business Council members favor developing market-based solutions with the private sector, improved delivery systems, and cost containment before increasing coverage. However, it is clear from their responses that Business Council members believe the private system needs to be reformed before public programs like Medicare and Medicaid.

Risks

The risks in addressing these health care challenges are not inconsequential. The overwhelming majority of respondents say the greatest risks are skyrocketing costs for businesses and higher funding burdens, although higher costs for individuals and diminishing the quality of health care are also seen as high risks. Another caution from the survey is the rush to enact too much, too fast without time to assess the impact on the system. Clearly, changes in one part of the system will have unintended effects on other parts. Interestingly, the notion that the best doctors and providers will leave the system is not regarded as a particularly high risk. All in all, as mentioned previously, almost 60 percent of respondents believe that, despite all of these risks, the benefits of tackling the problem are compelling.

Chart 4

Emphasizing Wellness Can Reduce Costs

Percent rating the effectiveness of the following on reducing costs:

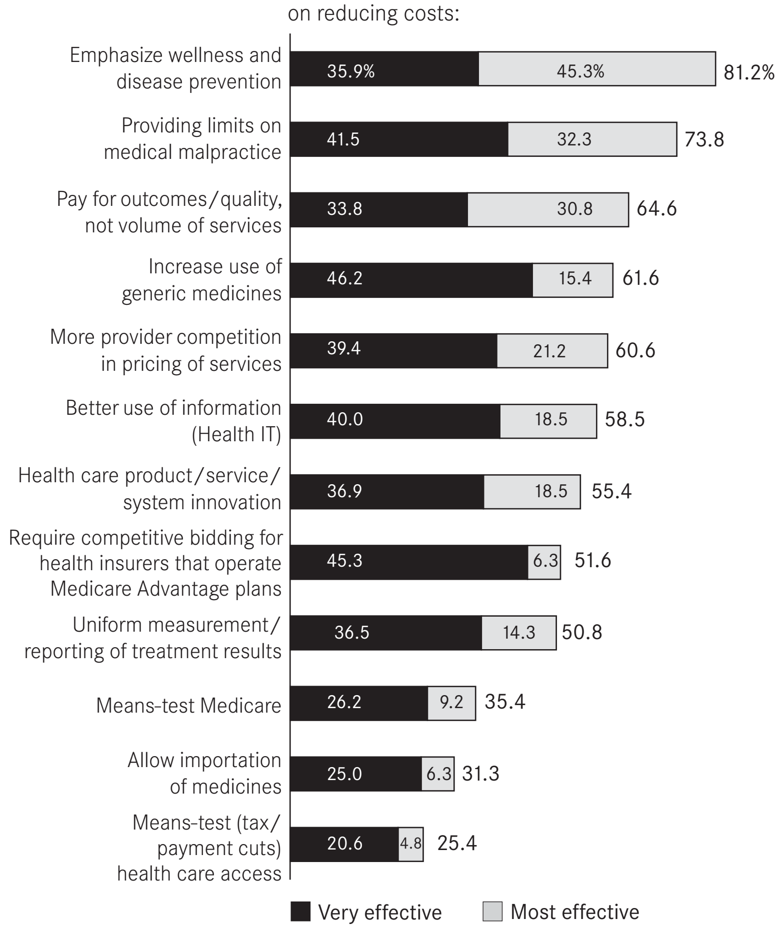
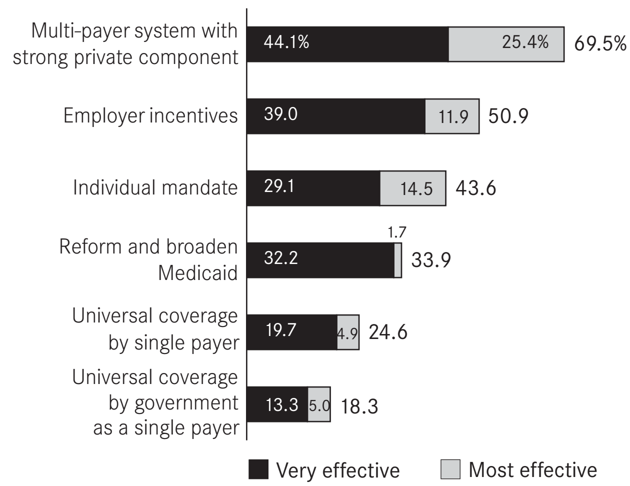


Chart 5

Multi-Payer System Improves Access

Percent rating the effectiveness of the followi in improving access:



The following forecast reflects the cumulative responses of the April 2009 U.S. Business Council CEO Survey Results.*

U.S. Economic Forecast (2009)

Economic growth in the second half of 2009	Sharply declining activity (-4.0% to -2.0%)	Declining activity (-1.9% to 0%)	Sluggish growth (0.1% to 2.0%)	Moderate growth (2.1% or more)
% responding	**20.9%**	**62.7%**	**16.4%**	**0.0%**
Core consumer inflation for the rest of 2009	Less than 0.5%	0.6% to 1.0%	1.1% to 1.5%	1.6% or higher
% responding	**2.9%**	**16.2%**	**23.5%**	**57.3%**
Unemployment rate at the end of 2009	8.1% to 9.0%	9.1% to 9.5%	9.6% to 10.0%	10.1% or higher
% responding	**14.9%**	**26.9%**	**40.3%**	**17.9%**
Fed Funds rate in December 2009	0% to 0.25%	0.26% to 0.50%	0.51% to 0.75%	0.76% to 1.0%
% responding	**54.5%**	**36.4%**	**6.1%**	**3.0%**

* Data collected in the month of April 2009.

Percentages may not add to 100 due to rounding.

About The Business Council

The Business Council is a voluntary association of business leaders whose members meet several times a year for the free exchange of ideas both among themselves and with representatives of governments. In its most fundamental form, the Council seeks to foster understanding through discussion. From these discussions, it hopes to generate greater understanding of major public policy issues and to help create consensus for solutions.

Visit The Business Council's Website at www.businesscouncil.com

About The Conference Board

The Conference Board creates and disseminates knowledge about management and the marketplace to help businesses strengthen their performance and better serve society. Working as a global independent membership organization in the public interest, The Conference Board conducts conferences, makes forecasts and assesses trends, publishes information and analysis, and brings executives together to learn from one another. The Conference Board is a not-for-profit organization and holds 501(c)(3) tax-exempt status in the United States.

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