ASSOCIATION FOR FINANCIAL PROFESSIONALS

2015 AFP

Business Outlook Survey

Report of Survey Results

KEY FINDINGS

2015 AFP

Business Outlook Survey

What is expected to happen in **2015**

Business conditions will improve with GDP growing **2.7%**

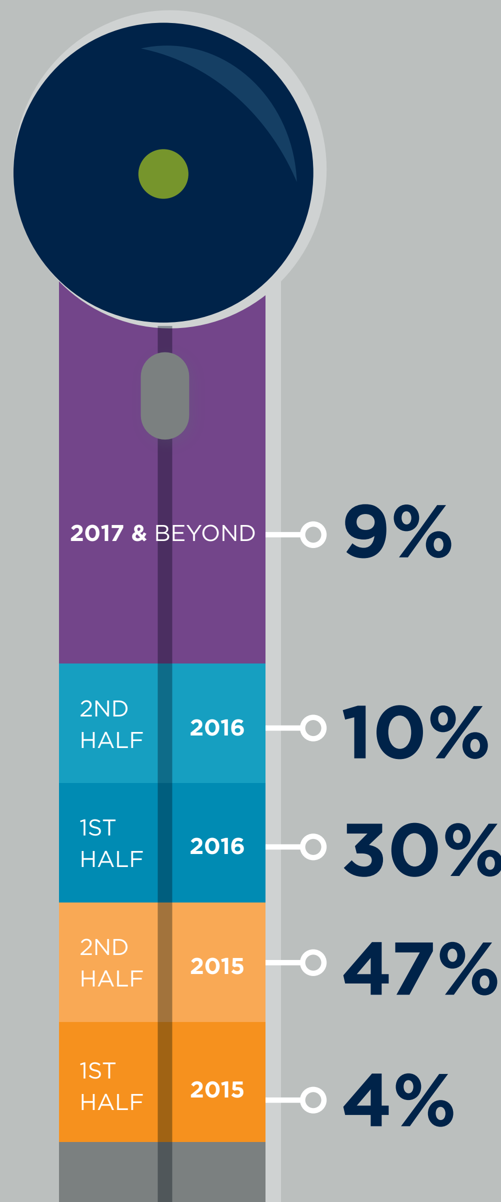
Non-farm payrolls will expand by 1.9 million workers, with **49%** of companies adding workers in the U.S.

Consumer prices will increase by **1.6%,** staying below the Federal Reserve's **2%** target rate.

The U.S. dollar will continue to appreciate against most major currencies

5 RISK FACTORS Financial Professionals Will Be Watching in 2015

When Will Short-Term Interest Rates **BEGIN TO RISE?**



2015 AFP Business Outlook Survey

2014 was a rollercoaster year for the U.S. economy. Harsh winter weather during the first quarter of 2014 throughout most of the country also put a freeze on business activity. But as the weather moderated, business activity roared back, generating what turned out to be the best six-month period for economic growth in 12 years. On the whole, 2014 saw improving consumer sentiment, hot auto sales and a solid (though not spectacular) housing market.

Words Used by Financial Professionals to Describe Their 2015 Business Outlook

But it was also a year in which domestic manufacturing was weak. In addition, global economies did not enjoy the same prosperity as did the U.S. economy.

So, what will we see in 2015 for the U.S. economy and business environment? According to results from the *2015 AFP Business Outlook Survey*, the U.S. will enjoy another solid year. More than half of financial professionals anticipate business conditions will improve during 2015–the largest percentage suggesting such improvement since before the recession of 2008-2009. More specifically, in 2015 financial professionals expect:

- The U.S. economy will grow 2.7 percent.
- Nonfarm employment will expand by 1.9 million jobs, with 49 percent of companies adding workers in the U.S.
- Consumer prices will rise 1.6 percent, staying below the Federal Reserve's two-percent inflation target rate.
- The U.S. dollar will continue to appreciate against most other major currencies

Why should you care what financial professionals have to say about business conditions?

Financial professionals are in a unique position to appreciate future economic and business environments for several reasons. First, they routinely must take into account business conditions that affect their organizations and then make assumptions on how those conditions will change in both the short and immediate term. Second, they also must make critical business decisions—including those affecting corporate borrowing and business investments—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.

GDP Growth and Inflation

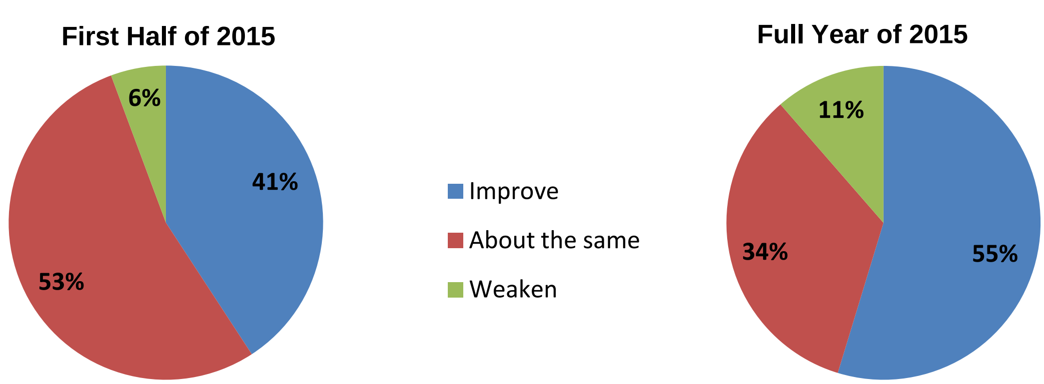
After an unusually harsh winter pulled back business activity during the first quarter of 2014, the U.S. economy rebounded during the second and third quarters, enjoying its best six months in more than a decade. Economic activity (as measured by the percent change in the gross domestic product, GDP) contracted 2.1 percent on a seasonally adjusted annualized basis during the first quarter of the year. But the economy reversed course very quickly during the second and third quarters, registering seasonally adjusted annualized growth rates of 4.6 and 3.9 percent, respectively. The annualized growth rate for the combined second and third quarters was 4.25 percent, significantly exceeding the 2.2 percent growth rate in 2013, the 2.3 percent gain in 2012 and the 1.6 percent growth rate during 2011.

Looking forward, financial professionals are optimistic about business conditions in the U.S. during 2015. More than half of survey respondents (55 percent) anticipate an improvement in business conditions next year. Only 11 percent expect conditions in 2015 will weaken.

Financial professionals are slightly less upbeat about conditions during the first half of 2015 than during the year as a whole. Forty-one percent of financial professionals believe economic conditions will improve during the first two quarters of next year than they are currently, while more than half of survey respondents indicate that conditions will improve over the course of the entire year. Only six percent of survey respondents expect conditions will weaken over the first six months of 2015.

Those figures slightly exceed that the percentages reported in last year's survey (December 2013). In that report, 52 percent of survey respondents expected the U.S. economy to improve over the following 12 months (December to December). That figure was above the 45 percent of survey respondents that held this view when surveyed in December 2012, the 50 percent who held this view in December 2011, the 49 percent in December 2010 and the 48 percent of survey respondents that held the same view in the December 2009 survey.

Expected Change in Business Conditions in the First Half of 2015 and Full Year of 2015
(Percentage Distribution)



Financial professionals expect that in 2015 GDP will grow at a just slightly faster pace than that in 2014. Their median forecast for annual GDP growth rate is 2.7 percent. Forty-four percent of survey respondents believe the U.S. economy will grow between 2.0 and 2.9 percent during the year while 31 percent are even more optimistic, expecting a growth rate of between 3.0 and 3.9 percent. Less optimistic are the 14 percent of financial professionals anticipating a GDP growth rate of between 1.0 and 1.9 percent. Only one percent of financial professionals anticipate the U.S. economy will contract during 2015—less than the seven percent of financial professionals in last year's survey who expected the 2014 economy to contract.

Expectations for Growth in Gross Domestic Product (GDP) During 2015
(Percentage Distribution)

At least +4.0%	5%
+3.0% and +3.9%	31
+2.0% to +2.9%	44
+1.0% to +1.9%	14
0.0% to +0.9%	5
GDP will contract during 2015	1

Consumer prices remained in check during 2014 thanks to the freefalling of energy prices that began mid-year and few inflationary pressures on most goods and services except food. Inflation, as measured by the Consumer Price Index (CPI), increased by 1.7 percent between October 2013 and October 2014, while the core CPI (which excludes the typically volatile energy and food components) grew at a 1.8 percent pace during the same period. Headline CPI has been rising at a slightly faster pace than the 1.5 percent rate registered for 2013 as a whole, while the core index reading was just below the 1.7 percent in 2014. Even though higher than the 2013 figures, both the headline and core indices this year increased less than the two-percent inflationary target set by the Federal Reserve.

Financial professionals do not expect inflation to budge from its current pace during 2015, and overall they anticipate a median CPI growth rate of +1.6 percent for next year. Fifty-nine percent of financial professionals expect consumer prices to increase between 1.1 percent and 2.0 percent during 2015, while 21 percent expect the CPI to increase between 2.1 and 3.0 percent next year. Fifteen percent of survey respondents expect consumer prices to rise 1.0 percent or less in 2014, with a mere three percent expecting a decline in prices.

Expectations for Growth in the Consumer Price Index (CPI) During 2015
(Percentage Distribution)

More than +3.0%	2%
+2.1% to +3.0%	21
+1.1% to +2.0%	59
+0.1% to +1.0%	15
CPI will contract during 2015	3

Employment

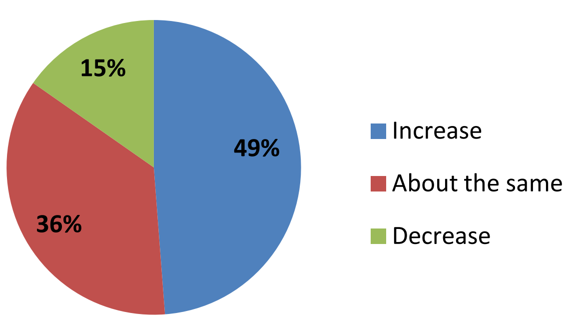
During the 12-month period through November 2014, the U.S. economy created 2.734 million nonfarm payroll jobs, an improvement over the 2.331 million jobs added in 2013. There was a major breakthrough in the labor market in May of 2014: nonfarm payrolls finally exceeded their pre-recessionary peak reached in January 2008.

Just under half of financial professionals report that their organizations will expand their workforce during the coming year. Forty-nine percent of financial professionals expect their organizations to increase their number of U.S.-based employees in 2015. Compare this to the 36 percent who anticipate U.S. payrolls will hold steady next year and the 15 percent who expect a reduction in the number of employees at their organizations.

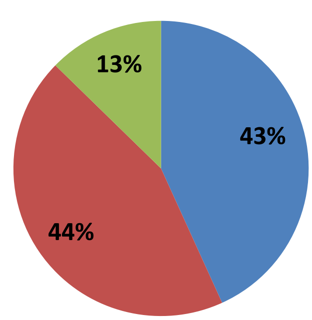
Among the financial professionals whose organizations currently have employees *outside* the U.S., 43 percent indicate their firms plan on expanding those payrolls as well during 2015. Forty-four percent indicate that their companies will maintain non-U.S. payrolls at current levels during next year while 13 percent of organizations are expected to contract non-U.S. payrolls.

Anticipated Change in the Number of Workers Organizations Employ During 2015
(Percentage Distribution)

Employment in the U.S.



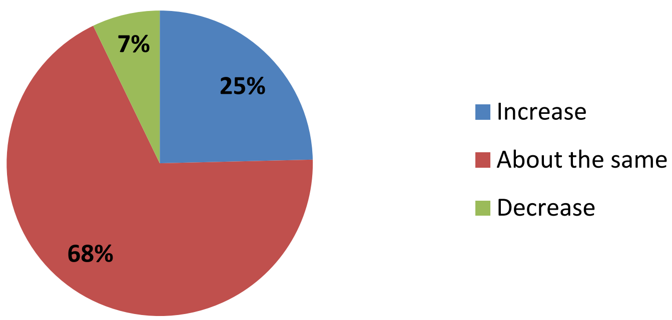
Employment Outside of the U.S.*



**- Responses from organizations with employees outside of the U.S.*

Financial professionals expect employment levels in the treasury and finance field will be stable during 2014. Two-thirds of financial professionals expect their organizations will employ the same number of workers in their treasury and finance functions at the end of 2015 as they do currently. Twenty-five percent anticipate an increase in the number of employees in their organizations' treasury and finance functions while seven percent believe payrolls in these departments will contract during the coming year.

Anticipated Change in the Number of Workers Organizations Employ in their Treasury & Finance Function During 2015
(Percentage Distribution)*



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

The net result of any additional hiring will be gains in U.S. nonfarm payrolls next year. Financial professionals estimate a median net job gain (nonfarm payrolls) of 1.9 million workers in 2015 in the U.S., with 38 percent of survey respondents expecting the U.S. economy to generate between 2.0 and 2.9 million net new jobs during the year and another eight percent anticipating a gain of at least 3 million jobs. Thirty-four percent of financial professionals expect net job gains of between 1.0 and 1.9 million while 14 percent expect fewer than 1.0 million jobs to be created during 2015. Six percent of financial professionals are more pessimistic, expecting nonfarm payrolls not to expand at all during 2015.

Anticipated Number of Jobs (on a Net Basis) the U.S. Economy Will Create in 2015
(Percentage Distribution)

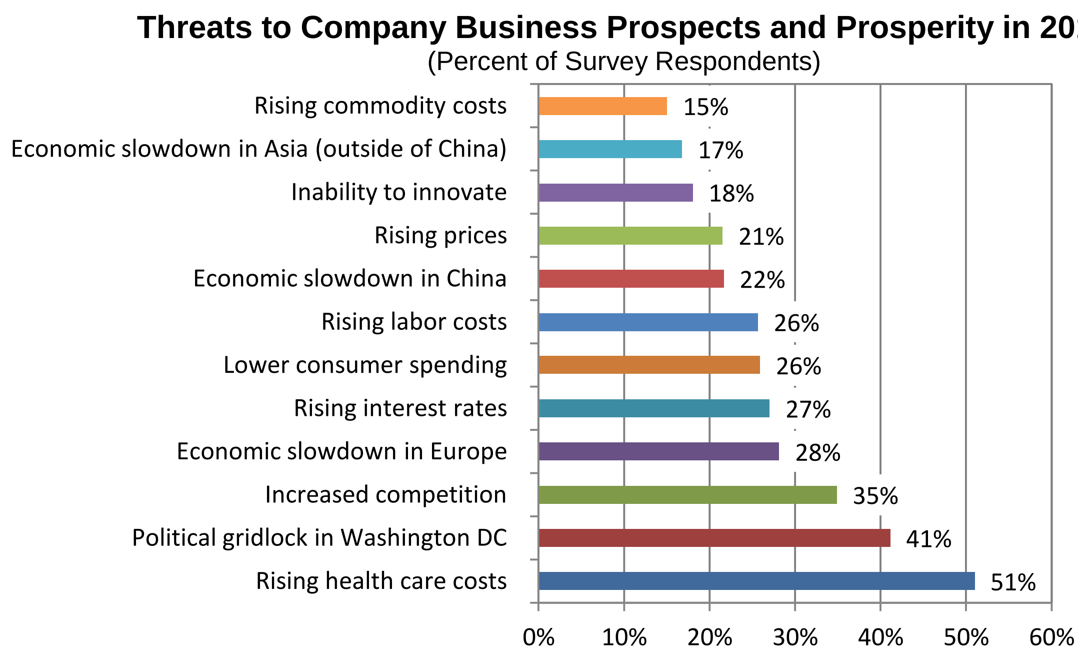
3.0 million or more	8%
Between 2.0 million and 2.9 million	38
Between 1.0 million and 1.9 million	34
Fewer than 1.0 million	14
Little to no gain in non-farm payrolls	5
Non-farm payrolls will contract in 2015	1

Threats to 2015 Economic Prosperity

Even though financial professionals are largely optimistic about the U.S. economy and their companies' business prospects for next year, they do see a number of threats that could hold back the economic recovery. Two of the biggest threats are those associated with activity in Washington, D.C.: half of financial professionals see rising health-care costs as a threat to their companies' growth and prosperity in 2015, and 41 percent are concerned about possible continued political gridlock in the nation's capital. Other possible threats to business prospects span from increased competition (35 percent) and rising interest rates (27 percent) and labor costs (26 percent) to lower consumer spending (26 percent).

In addition, weak economic activity outside of the U.S. could also have a detrimental effect on prospects for companies *inside* the U.S. Financial professionals see the following as threats to their companies' business prospects during 2015:

- Economic slowdown in Europe (cited by 28 percent of survey respondents)
- Economic slowdown in China (22 percent)
- Economic slowdown in Asia, outside of China (17 percent)

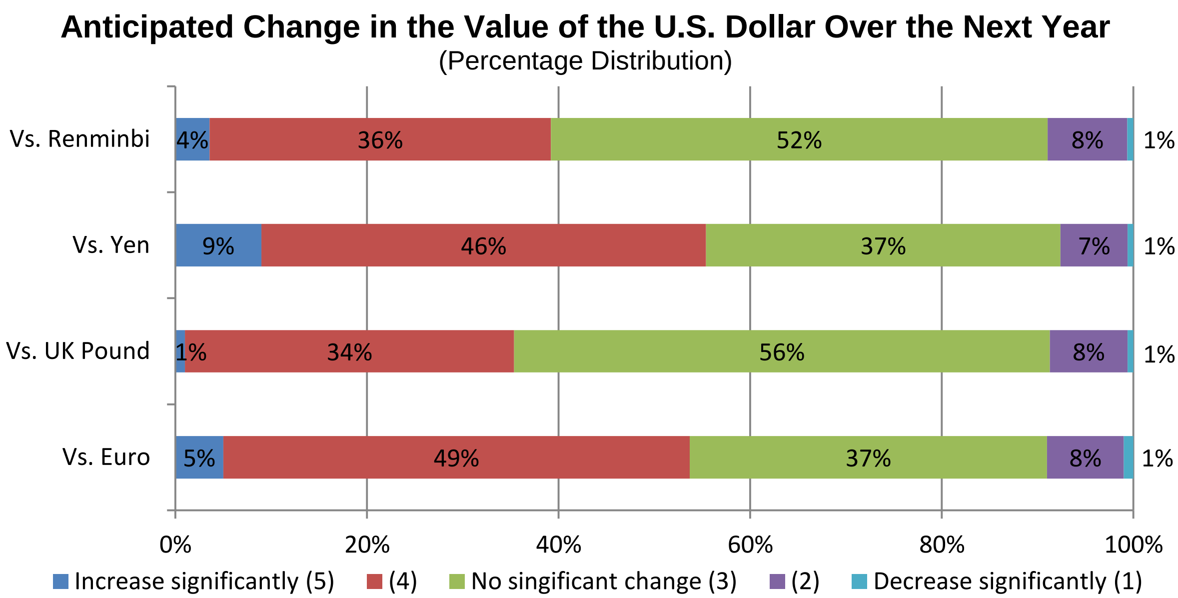


Another factor that financial professionals indicate will impact their companies' prospects and the U.S. economy as a whole in the coming year is the recent rise in the value of the U.S. dollar. The increase is in part due to the strength of the U.S. economy relative to economies in much of the rest of the world, particularly those in parts of Europe and Asia that have either teetered with or fallen into a recession during 2014. A stronger dollar raises the cost of U.S. goods overseas and thus could affect businesses' decision making as to where to produce and sell their goods, as well as where to invest their corporate cash.

Financial professionals report a mixed impact from the rising U.S. dollar on their organizations' profitability. Nineteen percent of financial professionals report that their companies' profitability fell during 2014 as a result of the strengthened U.S. dollar while 24 percent indicate that corporate profits improved as a result of the recent volatility in current valuation. Looking forward, a similar 20 percent of companies expect a detrimental impact on their firms' profits resulting from a stronger U.S. dollar during 2015 versus the 24 percent who anticipate improved earnings.

Financial professionals believe the U.S. dollar will continue to appreciate against several major currencies during 2015.

- 54 percent expect the U.S. dollar will appreciate against the euro
- 55 percent expect the U.S. dollar will appreciate against the yen
- 40 percent expect the U.S. dollar will appreciate against the renminbi (China)
- 35 percent expect the U.S. dollar will appreciate against the pound (U.K.)



Access to Credit

Organizations' access to capital markets remained relatively stable during 2014; most financial professionals indicate that their organizations' access to bank credit, equity markets and debt markets in 2014 was unchanged from that in 2013. But at the same time, at least a quarter of survey respondents report that their companies' access to at least *some* forms of capital *improved* during 2014.

Approximately two-thirds of financial professionals indicate that during 2014 their organizations' access to bank credit—for both short- and long-term credit—was largely unchanged from that reported in recent *AFP Business Outlook Surveys*. A similar percentage holds the same view regarding access to debt markets, and 72 percent report that their organizations' access to equity markets also did not change during 2014. Three in ten corporate practitioner respondents indicate that their organizations' access to short-term and long-term bank credit *improved* during 2014. Twenty-three percent of corporate practitioner respondents also report that their organizations' access to equity markets *improved* during 2014, while 29 percent report the same for their organizations' access to debt markets. Few corporate practitioner respondents report a decrease in access to bank credit, equity markets and debt markets over the past year.

Access to Capital Relative to 12 Months Ago*

(Percentage Distribution of Organizations that Use Specific Form of Capital)

	Increased	Remained the same	Decreased
Short-term bank credit	30%	67%	3%
Long-term bank credit	29	67	4
Equity markets	23	72	5
Debt markets	29	67	4

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

Most survey respondents anticipate that their organizations will enjoy continued stable access to credit during 2015. Seven in ten financial professionals expect their organizations' access to short-term and long-term credit will not change significantly next year. Twenty-six percent of respondents expect an increase in the availability of short-term and long-term bank credit during 2015.

Expected Change in Access to Credit in 2015*

(Percentage Distribution)

	Short-term credit (less than five-years)	Long-term credit (five-years or greater)
Increased availability	26%	26%
No change in availability	71	69
Decreased availability	3	5

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

Interest Rates and the Federal Reserve

2014 marked an important milestone in the Federal Reserve's historic monetary policy accommodation in response to the last recession. Throughout the year, the Federal Open Market Committee (FOMC) gradually reined in its monthly purchases of long-term Treasury securities and mortgage-backed agency securities with the goal of keeping long-term interest rates low.

During its late October meeting, the FOMC wrapped up this round of quantitative easing (QE) that left the Fed's balance sheet with $4.493 trillion in assets at the end of November. As recently as late 2007, the Fed's balance sheet had held less than $900 billion in assets. The voting members of the FOMC intend to maintain this expanded balance sheet as the Fed will reinvest principal payments made on these holdings for the foreseeable future.

At that same October meeting, the FOMC committed to keeping the fed funds target interest rate at near-zero percent, where it has been since December 2008, for a "considerable time." The October FOMC policy statement noted that the Fed would not raise the measure of short-term interest rates until its two-percent inflation rate target is achieved in an environment of maximum employment. In addition, even when the FOMC begins to push up the fed funds target rate, the measure "would remain below levels the Committee views as normal" for a long time period.

Just over half of financial professionals (51 percent) anticipate the Federal Open Market Committee will begin to raise the fed funds target rate sometime in 2015, with the vast majority of survey respondents believing such a move will be made during the latter half of the year. Slightly less than two of five financial professionals do not believe the Fed will act on short-term rates until 2016 and another nine percent believe such action will not occur until at least 2017.

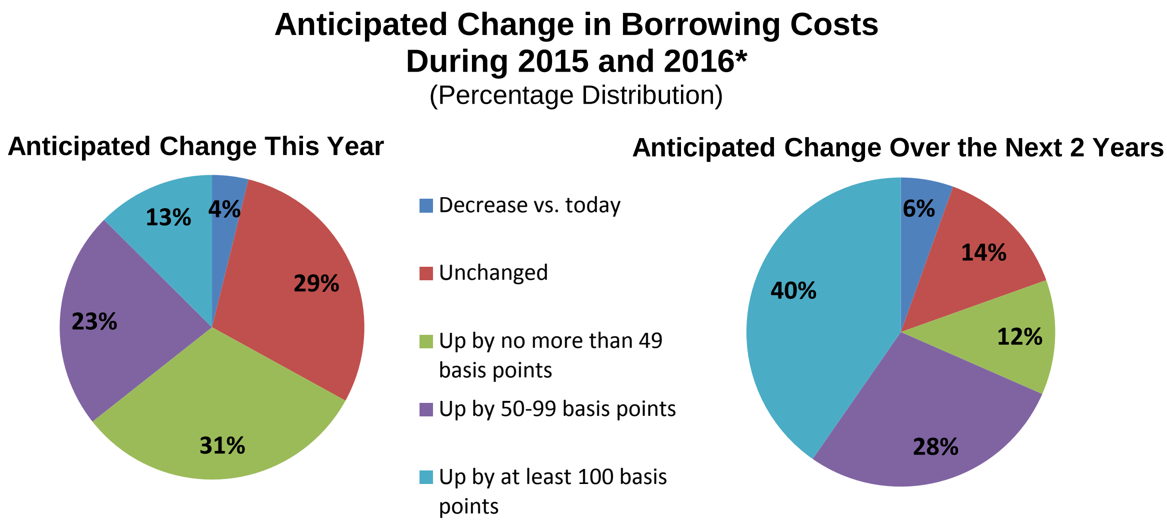
Anticipated Date of When the Federal Open Market Committee Starts to Raise the Fed Funds Target Rate

(Percentage Distribution)

First half of 2015	4%
Second half of 2015	47
First half of 2016	30
Second half of 2016	10
2017 or beyond	9

Financial professionals anticipate that their companies' cost of borrowing will rise significantly, especially over the next two years. The median expected increase in corporate borrowing costs for 2015 is 27 basis points (bps). Thirty-one percent of financial professionals anticipate their companies' borrowing costs will go up by up to 49 bps during next year, while another 23 percent see even higher borrowing costs of between 50 and 99 bps. Thirteen percent of survey respondents expect their companies' borrowing costs will rise by at least a full percentage point during 2015.

The median anticipated rise in borrowing costs over the next two years is 83 basis points. Even more notable, 40 percent of financial professionals expect their organizations' borrowing costs two years from now will be at least 100-basis points greater than what they are today.



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

Conclusions

Financial professionals expect 2015 will be a solid year for the U.S. economy, building on the momentum of 2014. More specifically, GDP is expected to grow 2.7 percent with the economy generating 1.9 million net new jobs during the year. Financial professionals also indicate that their companies are confident about their own prospects, with nearly half of organizations planning to expand payrolls during the coming year.

There remain a number of challenges to economic growth and prosperity in the coming year. As companies develop and execute business strategies for and during 2015, there are a variety of areas they should pay close attention to:

- **The timing of when the Federal Reserve begins to raise short-term interest rates.** Half of financial professionals believe 2015 will be the year during which the central bank hikes the fed funds target rate. This rate was set at near-zero percent during the depths of the last recession in December 2008. Most financial professionals are preparing for their companies' cost of borrowing to rise over the next two years.
- **The economic health of Europe and Asia.** As the U.S. economy moved into high gear during 2014, a number of the country's major trading partners either teetered with or actually moved into a recession. A reduction in demand for U.S. goods and services will check the growth of a number of U.S. economies in 2015.
- **The rising value of the U.S. dollar.** The weak prospects of many global economies may support the recent surge in the U.S. dollar, leading to new challenges (and opportunities) for many companies.
- **The drop in energy prices**. Higher domestic production and the rising U.S. dollar led to a sharp drop in oil prices during the final months of 2014. Lower energy prices add to the disposable income of consumers, but it could give the Fed a reason to further delay raising short-term interest rates if it sees deflationary risks.
- **The solidifying confidence of the U.S. consumer.** The two major measures of consumer confidence were at or near post-recession highs towards the end of 2014, thanks to

improved job market prospects and lower gas prices. But while auto sales returned to prerecession highs and the housing market stabilized (albeit well below its previous peak of the mid-2000s), retail sales have been inconsistent. The question remains what will be the impact of higher interest rates on consumer spending.

- **Political stalemate in Washington, DC.** The final wildcard is the degree to which the White House and Congress will be able to work together. There are a number of issues, including corporate tax reform, where consensus would further promote economic prosperity.

Regardless of the 2015 economic environment, financial professionals will continue to play a key role in their organizations' decision-making, considering economic and business environment developments and looking closely at the next few rounds of economic statistics, company balance sheets, and upcoming policy debates.

Methodology

On November 20, 2014 AFP sent a 13-question survey to its corporate practitioner members that asked for their views about current business conditions and expectations for future business conditions. As of December 5th, AFP received 450 responses. Surveys also were sent to prospective corporate practitioner members and to financial professionals who work for financial institutions and other vendor organizations. These groups generated 241 and 165 additional responses, respectively.

The characteristics of the 856 survey respondents mirror those of AFP's membership with wide coverage across all major industry groups. The typical respondent is employed by an organization with annual revenues of $1.5 billion.

AFP has surveyed its members in late November and early December every year since 2004 to track their outlook for future business conditions. 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

AFP EconWatch is a weekly newsletter featuring a summary of the latest economic data released over the previous week—tracking everything from prices and output to interest rates and business confidence. Designed to provide financial professionals with a roundup of the latest economic trends that could affect their organizations, this quick read is published every Monday and is emailed to subscribers and also is available at www.AFPonline.org/EconWatch.

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