




Association for
Financial Professionals®

2013 AFP Business Outlook Report of Survey Results

2013 AFP Business Outlook Survey

Financial professionals remain cautious in their business outlook for 2013 as they expect the U.S. economy will maintain a modest pace of modest economic growth and job creation. Specifically, financial professionals anticipate the economy will grow 1.7 percent (real GDP growth) and create 1.3 million jobs during 2013. These conclusions are based on results of the *2013 AFP Business Outlook Survey*, which also shows how uncertainty is keeping organizations from making critical investments—e.g., hiring, capital investments—that would ultimately promote further economic growth.

The most immediate issues weighing on the 2013 outlook revolve around the “fiscal cliff,” a term used to refer to the multiple temporary tax cuts set to expire at the end of 2012 along with the mandatory spending cuts that also are set to take place in the new year. Will Congress and the White House reach an agreement to mitigate at least some of the recessionary effects of the pending expiration of tax cuts and mandatory spending cuts would likely cause? If so, when would the

agreement be reached and what would it entail? One thing is clear from the survey results: financial professionals would be very dissatisfied with any agreement that simply defers decision-making on the fiscal issues facing the U.S. Financial professionals strongly believe it is critical that Congress and the White House address the long-term budget deficits and that both spending cuts *and* increased tax revenues should be a part of the solution. The *2013 AFP Business Outlook Survey* also reveals that the threat of the fiscal cliff is already affecting some organizations’ decisions on hiring and capital investment and financial professionals see an even greater negative impact should agreement not be reached.

Beyond the immediate issues related to the fiscal cliff, the survey identifies other areas which financial professionals think Washington should address—effective corporate tax rates, taxation on repatriated foreign earnings and regulatory relief—that will ease the uncertainty currently paralyzing corporate decision-making. Survey respondents also indicate that organizations will begin to move cash and short-term investments away from bank accounts when (should) unlimited FDIC insurance currently available on non-interest bearing corporate bank accounts expires at the end of 2012.

Financial professionals are in a unique position. Not only must they 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 every December for each of the past nine years to track their outlook for future business conditions. The *2013 AFP Business Outlook Survey* was conducted between November 26 and December 7, 2012 and generated 1,361 responses. 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.

Words Used by Financial Professionals to Describe the 2013 Business Outlook



GDP Growth and Inflation

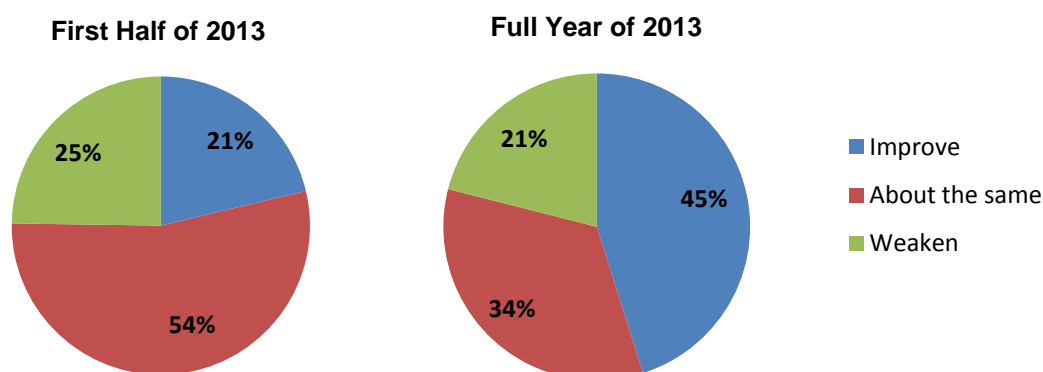
The recovery of the U.S. economy, now three and a half years old, remained uneven for much of 2012. Economic growth (as measured by change in the gross domestic product, GDP) posted seasonally adjusted annualized rates of 2.0 and 1.3 percent during the first two quarters of the year, respectively. Third-quarter GDP growth reflected a pickup in economic activity, registering a seasonally adjusted annualized rate of 2.7 percent. But the levels of economic growth during 2012, as well as those in 2010 (2.4 percent) and 2011 (1.8 percent) continue to be inadequate for any rapid pace of job creation.

Still, financial professionals are optimistic about prospects for the U.S. economy during 2013, especially should certain political issues be resolved. Nearly half of financial professionals (45 percent) anticipate an improvement in business conditions during 2013 while 21 percent expect conditions for next year will be worse than the uneven pace of economic growth during 2012.

The outlook is somewhat less positive for the first half of 2013. Only 21 percent of financial professionals believe economic conditions will be better during the first two quarters of next year than they are currently. This less-optimistic view likely reflects the uncertainty surrounding the current “fiscal cliff” debates and their ultimate impact on government spending and taxation in the new year.

Despite this less positive shorter-term outlook, the full-year view of financial professionals is consistent with that found in the previous three *AFP Business Outlook Surveys*. In the survey conducted a year ago (December 2011), 50 percent of survey respondents expected the U.S. economy to improve over the following 12 months, nearly matching the 49 and 48 percent shares that expected the same in the December 2010 and December 2009 surveys

Expected Change in Business Conditions Over First Half of 2013 and Full Year of 2013



Even if business conditions improve, financial professionals expect GDP will grow at a modest pace in 2013—predicting a median GDP annual growth of 1.7 percent. Twenty-eight percent of survey respondents believe the U.S. economy will grow between 1.0 and 1.9 percent during the year while 37 percent expect the growth rate will be between 2.0 and 2.9 percent. A small proportion of financial professionals is even more optimistic, with six percent of survey respondents anticipating GDP will expand by at least three percent during 2013. The median prediction for GDP growth for 2013 was constrained by the significant number of survey respondents who anticipate the U.S. economy will shrink next year. Eighteen percent of survey respondents expect the U.S. economy will contract in 2013, while 12 percent expect GDP will expand by less than one percent in 2013. For perspective, participants in last year’s survey anticipated the U.S. economy would grow 1.9 percent in 2012.

Expectations for Growth in the Gross Domestic Product (GDP) During 2013
(Percentage Distribution)

+3.0% and above	6%
+2.0% to +2.9%	37
+1.0% to +1.9%	28
0.0% to +0.9%	12
-0.1% to -1.0%	4
-1.1% to -2.0%	6
Less than -2.1%	8

Consumer prices moderated during 2012 against a backdrop of commodity price volatility. The consumer price index (CPI) increased 2.2 percent between October 2011 and October 2012, while the core CPI (which excludes the typically volatile energy and food components) grew at a 2.0 percent pace during the same period. The headline CPI index was significantly below the 3.1 percent rate during the 12-month span ending in October 2011, while the core index reading was just below the 2.1 percent experienced over that same period a year earlier.

Financial professionals expect inflation will remain well in check during 2013, predicting a median CPI growth rate of +1.9 percent. Thirty-seven percent of financial professionals anticipate consumer prices will increase between 1.1 percent and 2.0 percent during 2013 while another 38 percent expect the CPI to grow between 2.1 and 3.0 percent next year. Eleven percent expects consumer prices will rise between 0.1 and 1.0 percent in 2013.

Expectations for Growth in the Consumer Price Index (CPI) During 2013
(Percentage Distribution)

More than +4.0%	1%
+3.1% to +4.0%	5
+2.1% to +3.0%	38
+1.1% to +2.0%	37
+0.1% to +1.0%	11
-0.9% to 0.0%	6
-1.0% or less	2

Access to Credit

The turmoil in the capital 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 and ended (officially) in June 2009. It also had a dramatic impact on the availability of credit. Since the end of the financial crisis, access to credit improved for a number of companies, with most continuing to enjoy relatively stable access to credit during 2012.

Roughly two-thirds of financial professionals indicate that their organizations' access to bank credit—for both short-term and long-term credit—had remained the same in 2012 as it was in 2011. A similar percentage holds the same view regarding access to debt markets and nearly three-quarters report that their organizations' access to equity markets did not change. Twenty-eight percent of corporate practitioner survey respondents indicate that their organizations' access to short-term bank credit *improved* during 2012 while 24 percent report the same in regards to long-term credit. Eighteen percent of corporate practitioner survey respondents also report that their organizations' access to equity markets *improved* during 2012, while 24 percent report the same for their organizations' access to debt markets. Fewer than ten percent of corporate practitioner survey 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	28%	65%	7%
Long-term bank credit	24	69	7
Equity markets	18	75	8
Debt markets	24	68	8

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

Survey respondents anticipate their organizations' credit access to be unchanged in 2013, although a significant percentage of them expect *improved* access during the new year. Two-thirds of financial professionals expect their organizations' access to short-term and long-term credit will not change significantly during 2013. A quarter of respondents, however, expect an increase in the availability in bank credit during 2013.

Expected Change in Access to Credit in 2013*
(Percentage Distribution)

	Short-term credit (less than five-years)	Long-term credit (five-years or greater)
Increased availability	26%	25%
No change in availability	68	67
Decreased availability	6	7

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

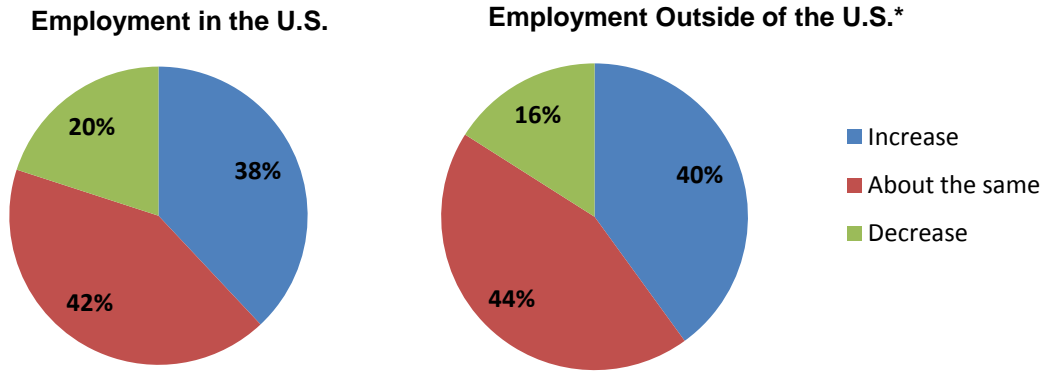
Employment

During the 12-month period through November 2012, the U.S. economy created 1.889 million non-farm payroll jobs, an improvement over the 1.463 million jobs added during the 12-month period through November 2011. Even though the pace of job creation was picking up during 2012, 4.171 million fewer people had jobs in November 2012 than they did when employment peaked in January 2008.

A plurality of financial professionals indicate that their organizations will expand payrolls during 2013, although some of the job gains will likely be outside of the U.S. Thirty-eight percent of financial professionals expect their organizations to increase the number of people they currently employ in the U.S. over the next year. Forty-two percent anticipate U.S. payrolls will hold steady during the new year, while 20 percent expect a reduction in the number of people that their organizations employ. A greater percentage of large organizations (those with annual revenues greater than \$5 billion) plan to contract their U.S. payrolls during 2013 compared with the share of smaller organizations (those with annual revenues under \$500 million) that plan to do so: 27 percent versus 14 percent.

Among those organizations that currently have employees outside of the U.S., 40 percent plan on further expanding payrolls outside of the U.S. during 2013. Forty-four percent of these organizations will maintain non-U.S. payrolls at current levels during the new year while 16 percent will contract non-U.S. payrolls.

**Anticipated Change in the
Number of Workers Organizations Employ During 2013**
(Percentage Distribution)



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

The net result of any additional hiring, however, will be a relatively modest gain in overall U.S. employment during 2013. Financial professionals’ estimate a median net job gain (non-farm payrolls) of 1.3 million workers in 2013 (in the U.S.), with 35 percent of survey respondents expecting the U.S. economy to generate between 1.0 and 1.9 million net new jobs during the year. Twenty-one percent of financial professionals expect net job gains of between 2.0 and 2.9 million while 24 percent expect fewer than 1.0 million jobs will be created in 2012. One in six financial professionals are more pessimistic, anticipating that non-farm payrolls will not expand during 2013—i.e., little-to-no gain or an actual contraction.

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

More than 3.0 million	3%
Between 2.0 million and 2.9 million	21
Between 1.0 million and 1.9 million	35
Fewer than 1.0 million	24
Little to no gain in non-farm payrolls	12
Non-farm payrolls will contract in 2013	4

Policy, Regulation and the Economy

A common factor cited by many in recent years to explain the slow pace of the economic recovery and hiring is uncertainty. This uncertainty has taken and can take many forms: concerns about tax and regulatory policy, the level of consumer demand, and even the political makeup of Congress and the White House. It is uncertainty that understandably has led many companies to be cautious in adding to their payrolls or increasing capital spending.

November 2012 concluded a particularly long election season, but voters ultimately reaffirmed the *status quo*—that is, the re-election of Barack Obama for a second term as President of the United States, and the continued split control of the House and Senate between Republicans and Democrats. The one break in uncertainty was the outcome of the elections: there was little doubt about what the results would be by the time most Americans had gone to bed election night.

The vast majority of financial professionals do not believe the 2012 election results will have an impact on their organizations' decisions on investments for growth (such as hiring more workers, increasing capital spending, mergers & acquisitions), particularly the outcome of the Congressional elections. Sixty-nine percent of financial professionals indicate that the re-election of President Obama will have no significant impact on the level of growth-oriented investments their organizations will make, while 22 percent believe his re-election could prompt their organizations to reduce the level of investments to some extent. Eighty percent of financial professionals indicate the continued split control of Congress will have no impact on growth-oriented investment spending, while 14 percent believe the outcome in the Congressional elections will have a negative impact on their organizations' growth oriented investment spending.

Anticipated Impact of 2012 Elections on Investments for Growth
(Percentage Distribution)

	Increase significantly (5)	(4)	No significant change (3)	(2)	Decrease significantly (1)
Presidential Elections	1%	7%	69%	16%	6%
Congressional Elections	1	5	80	12	2

The Fiscal Cliff

One of the sources of uncertainty during the latter half of 2012 has been the looming “fiscal cliff,” scheduled to occur at the end of the year. The term “fiscal cliff” describes the expiration of a number of “temporary” tax cuts—including those that impact marginal income tax rates (popularly known as the “Bush tax cuts”) and the temporary partial tax holiday on FICA contributions—and a series of mandatory spending cuts (i.e., “sequestration”). These measures are scheduled to occur on January 1, 2013. Most economists and other stakeholders believe the impact of the fiscal cliff could have serious detrimental effects on the U.S. economy, perhaps even pushing it back into a recession.

At the time this survey was conducted and when this report was being written (first week of December 2012), Congressional leaders and the White House were still negotiating solutions that would soften the impact of this fiscal cliff. The contentious nature of the issues involved (e.g., tax hikes on the wealthy, slowing the growth rate of the federal budget debt, cutbacks in entitlements) appear to ensure that negotiations are likely to go to the last minute—perhaps even into 2013. The uncertainty of when a settlement may be reached and the details of such a settlement have had an impact on some organizations' behavior and decision making, particularly regarding cash levels and certain growth-oriented investments.

In an environment of uncertainty or where future prospects may look weak, some companies tend to build out cash reserves to ride out an expected downturn. Twenty percent of organizations have increased their cash and short-term investment cash holdings as a direct result of the possibility that the fiscal cliff could occur at the end of 2012. Should the fiscal cliff actually occur without any alteration, 26 percent of survey respondents expect their organizations will build out their cash holdings.

But these organizations are the exceptions—73 percent of organizations have not altered the amount of cash that they hold against the possibility of the fiscal cliff while two-thirds of survey respondents do not anticipate their organizations will change the amount of cash that they hold should the fiscal cliff occur.

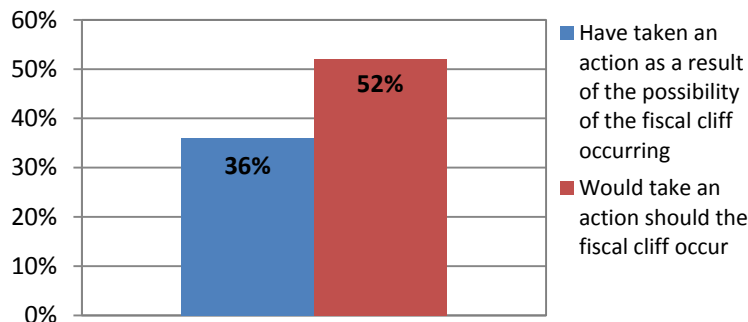
Impact the Fiscal Cliff is Having/Could Have on Organizations' Cash Holdings
(Percentage Distribution)

	Increase significantly (5)	(4)	No significant change (3)	(2)	Decrease significantly (1)
Threat of fiscal cliff having on current cash holdings	3%	17%	73%	5%	1%
Anticipated impact on cash holdings should fiscal cliff occur	5	21	65	7	3

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

Thirty-six percent of organizations have taken at least one action against the uncertainty surrounding the fiscal cliff. If the White House and Congress should *not* reach a compromise by the end of the year, even greater corporate caution could be in play. Just over half of organizations (52 percent) plan to take at least one action should the fiscal cliff occur unchecked in 2013. The actions taken (and would be taken) by companies directly impact workers and other investments that are geared towards growth.

Organizations that Have Taken Action Because of the Threat of the Fiscal Cliff and Those Would Take an Action Should the Fiscal Cliff Occur



Fifty-five percent of organizations that have taken an action because of the threat of the fiscal cliff have reduced and/or delayed capital spending, 52 percent have frozen and/or reduced hiring and 27 percent have shrunk payrolls. Other actions taken by organizations as a result of the threat of the fiscal cliff include:

- Shortened the duration of the short-term investment portfolio (cited by 22 percent of organizations that have taken an action)
- Reduced current/planned inventory levels (21 percent)
- Tightened credit standards for trading partners (16 percent)
- Delayed payments to vendors (11 percent)

Similarly, 60 percent of survey respondents that anticipate their organizations *will* take action should the fiscal cliff occur indicate that those decisions would include reducing and/or delaying capital spending, 59 percent note that their organizations would freeze or reduce hiring and 38 percent indicate that their organizations would lay off employees. Other actions that would be taken by organizations should the fiscal cliff occur include:

- Tighten credit standards for trading partners (cited by 21 percent of organizations that would take an action)
- Reduce current/planned inventory levels (20 percent)
- Shorten the duration of the short-term investment portfolio (19 percent)
- Delay payments to vendors (13 percent)
- Close locations (13 percent)

**Actions That Organizations Have Taken (or Expect to Take)
as a Result of the Fiscal Cliff**

(Percent of Organizations Reporting that Have Taken or Expect to Take Action)

	Actions Taken as a Result of the Threat of the Fiscal Cliff	Expected Actions Should the Fiscal Cliff Occur on January 1 st
Reduce/delay capital spending	55%	60%
Freeze or reduce hiring	52	59
Reduce staff/layoffs	27	38
Shorten the duration of short-term investment portfolio	22	19
Reduce current or planned inventory levels	21	20
Tighten credit standards for trading partners	16	21
Delay payments to vendors	11	13
Draw on credit facilities to build cash reserves	9	12
Close locations (e.g., stores, factories, offices)	8	13
Move cash reserves outside of the U.S.	7	7
Reduce/eliminate shareholder dividend payments	6	11
Delay/discontinue share repurchases	4	7

The vast majority of financial professionals do not believe the fiscal cliff, at least in its current form, should be allowed to occur at the end of the year. At the same time, most of them also agree the goal of achieving a long-term plan that addresses the fiscal issues affecting the federal government is critical. Sixty-two percent of financial professionals believe that fiscal cliff should not occur at the end of the year but also agree that it is imperative that Congress and the White House reach a long-term budget agreement that addresses the burgeoning federal debt. Twenty-eight percent of financial professionals believe, however, that the current state of the U.S. economy is too fragile not to further extend at least some of the tax cuts and/or defer or delay the mandatory budget cuts. Interestingly, despite wide agreement on the short-term negative effects on the economy should the fiscal cliff occur unchanged, ten percent of financial professionals believe it is in the best interests of the nation for it to happen.

**Financial Professionals' Preferred Outcome with Negotiations Dealing with Pending Fiscal Cliff
(Percentage Distribution)**

Believe it is in the best interests of the nation to allow both the pending expiration of tax cuts and sequestration to occur as currently scheduled.	10%
Believe current economic conditions necessitate Congress and the White House to agree on deferring and/or canceling at least some of the elements of the fiscal cliff (i.e., extending current tax cuts and deferring mandatory spending cuts)	28
Does not believe the fiscal cliff should be allowed to occur, but also believes it is imperative that Congress and the White House reach a long-term budget deficit agreement.	62

The focal point of much of the debate surrounding not only the fiscal cliff but, more broadly, the role of government in the economy, has been how (and whether) the size of the federal budget deficit should (or can) be addressed without harming the economic recovery. Much of this debate centers on whether deficit reduction should be funded through tax increases, spending cuts or a combination of the two. Coloring these debates are political philosophies about the role/size of government in the economy and about the “fairness” of the tax code.

Financial professionals nearly unanimously support efforts to rein in the size of the federal budget deficit (98 percent). In addition, financial professionals overwhelmingly believe that a reduction in government spending must play a significant role in any long-term budget agreement (95 percent). But more than three in five financial professionals (63 percent) believe that increasing tax revenues needs to be part of any solution. Twenty-eight percent of survey respondents believe that the most effective means of reducing the budget deficit will be “primarily” through decreasing spending while only four percent believe that the deficit reduction should be funded largely through increasing tax revenues.

Most Effective Methods for Reducing the Federal Budget Deficit
(Percentage Distribution)

Solely by increasing tax revenues	>1%
Primarily by increasing tax revenues	3
A blend of increasing tax revenues and decreasing spending	60
Primarily by decreasing spending	28
Solely by decreasing spending	7
At this time, reducing the size of the federal budget deficit should not be a priority	2

Beyond the fiscal cliff, there are a number of issues that federal government policymakers could address which financial professionals feel would have a positive impact on business activity in 2013. As noted above, uncertainty has been a major factor in companies’ decisions to defer making growth-oriented investments, including hiring more workers and increasing capital spending.

Seventy-five percent of corporate practitioner financial professionals indicate that a reduction of the regulatory burden on business would have a positive impact on their organizations’ level of investment for growth in 2013 and beyond. Seventy-one percent of survey respondents indicate that at least gaining greater *clarity* on business regulations would help boost growth-oriented investments. Another 72 percent of financial professionals also indicate that Congress and the White House agreeing on a long-term plan on deficit reduction would lead to an increase in growth-oriented investments by their organizations.

Resolving issues surrounding tax also could lead to greater investments made for growth.

- Sixty-seven percent of financial professionals indicate their organizations would increase their level of growth-oriented investments should the effective corporate tax rates be lowered closer to those of other developed nations. Meanwhile, 63 percent of organizations would increase similar types of investment should they gain greater clarity on taxation of business income during 2013 and beyond.
- Forty-three percent of survey respondents indicate a permanent reduction in the taxation of income repatriated from their organizations’ overseas operations would lead to an increase in corporate investment oriented towards growth. Thirty-eight percent of survey respondents expect a similar positive impact on growth-oriented investments should there be a temporary lowering of taxation on repatriated earnings.

**Anticipated Impact of Following on Organizations' Anticipated Level of Investment for Growth
(e.g., Hiring, Capital Spending) in 2013 and Beyond
(Percentage Distribution)**

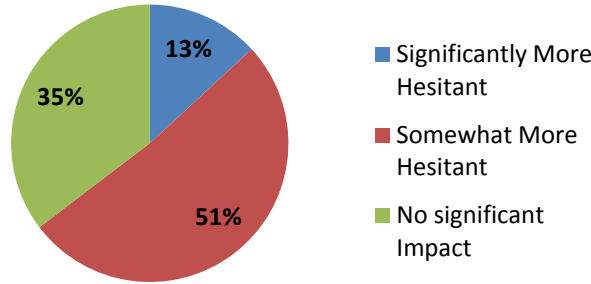
	Major Positive Impact	Minor Positive Impact	No Impact	Minor Negative Impact	Major Negative Impact
Reducing the regulatory burden on business	31%	44%	22%	2%	1%
Congress and the White House agreeing on a long-term plan on deficit reduction	33	39	26	3	>1
Greater clarity on regulations that affect business	25	46	26	2	>1
Lowering the effective corporate tax rates in the U.S. closer to those in other developed economies	31	36	30	3	>1
Clarifying business income taxation in 2013 and beyond	23	40	32	4	1
Clarifying personal income taxation in 2013 and beyond	15	33	48	3	>1
Permanently lowering the taxation of earnings repatriated from overseas operations	21	22	54	1	2
Temporarily lowering the taxation of earnings repatriated from overseas operations	9	29	59	3	>1

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

Debates on issues that have direct and indirect impact on economic activity and other policy issues are being held in a political environment where it has become increasingly difficult to pass legislation and budgets that are critical to a functioning government and economy. The current debates over the fiscal cliff are only the most recent example. The political stalemate over budgets and the debt ceiling a year-and-a-half ago led one major credit rating agency to lower its sovereign debt rating for the U.S. The inability to reach a meaningful solution on the fiscal cliff and federal budget deficits could lead to more rating downgrades in 2013.

The divisive political environment in Washington is adding to business leaders' cautious behavior. Not knowing in which direction the economy may go, whether corporate and personal tax rates may go up or down or whether changes in government spending may affect them in the coming months and years, make it difficult for organizations to plan for the future. This in turn has made some organizations hesitant to invest in future growth (e.g., increasing capital spending, hiring more workers, mergers & acquisitions). Thirteen percent of financial professionals indicate that their organizations have become significantly more hesitant to make investments for growth as a result of the inability of Congress and the White House to reach consensus on critical issues affecting the economy and nation as a whole. Another 51 percent of survey respondents indicate that their organizations have become "somewhat" more hesitant to make investment for future growth.

The Impact of the Perception that Washington is Unable to Reach Consensus on Budgetary and Economic Policies on Organizations' Willingness to Invest in Future Growth
(Percentage Distribution)



Federal Reserve

With a continued uneven pace of economic growth in the U.S. that has generated a relatively slow rate of job creation, the Federal Reserve Board's Open Market Committee (FOMC) launched another round of quantitative easing (QE3) through the monthly purchase of \$40 billion in mortgage-back securities. Unlike previous rounds of quantitative easing, this program does not have a set expiration date and will continue indefinitely. The third round of quantitative easing is in addition to the Fed's expectations that the "exceptionally low" fed funds rate (currently near-zero percent) will remain in place through at least the middle of 2015.

Advocates for QE3 point out that such action is necessary to promote economic growth and hiring, especially given the Fed's statutory mandate of fostering price stability and maximum employment. Others, however, have expressed concern about the impact of the size of the Fed's balance sheet has had and will have on inflation and the value of the U.S. dollar.

Financial professionals are not fully convinced of the effectiveness of QE3, especially in the context of the potential costs of the program. Forty-five percent of financial professionals believe the risks of the Fed's actions outweigh the benefits while 35 percent of financial professionals believe the benefits and risks of the Fed's actions are equally balanced. Just 20 percent of financial professionals believe the benefits of the actions outweigh the risks.

Benefits versus Risks Associated with the Resumption of Quantitative Easing
(Percentage Distribution)

Benefits greatly outweigh risks (5)	(4)	Benefits and risks are equally balanced (3)	(2)	Risks greatly outweigh benefits (1)
6%	14%	35%	30%	15%

FDIC Unlimited Insurance

According to the [2012 AFP Liquidity Survey](#), 51 percent of organizations' cash and short-term investment holdings are maintained in bank accounts. The share of such investments held in bank accounts has grown dramatically in recent years. As recently as 2006, the percentage of cash and short-term investment holdings held in bank accounts was 23 percent.

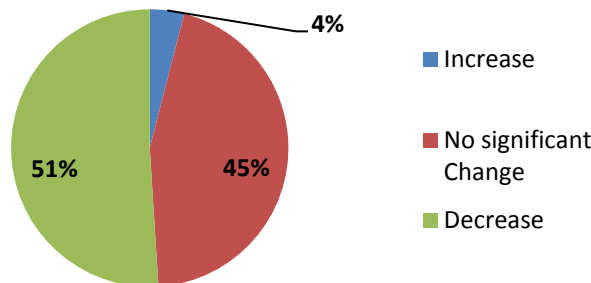
There are a number of reasons for the shift of short-term investments into bank deposits, including organizations' greater preference for safety over yield as a result of the financial crisis and recession. But

another factor is the availability of unlimited FDIC insurance on corporate (commercial) deposits held in non-interest bearing accounts. Corporate access to unlimited insurance was most recently extended with the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, but this extension is scheduled to expire at the end of 2012.

At the time of publication of this report, there were some calling for the continued availability of this unlimited FDIC insurance, but it is unclear whether such an extension would be agreed upon by Congress. Should unlimited FDIC insurance expire at the end of the year, 51 percent of organizations expect to move at least some of their cash and short-term investment portfolios away from non-interest bearing bank accounts into other investment vehicles.

Organizations' Plans to Alter Short-Term Investment Balances Held in Bank Accounts When Unlimited FDIC Insurance Expires at the End of 2012

(Percentage Distribution of Organizations that Place Cash in Bank Accounts)



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

Organizations that plan to reduce the amount of their short-term investments currently held in bank accounts *if* unlimited FDIC insurance expires after December 31, 2012 plan to reduce such holdings by a median of 20 percent. Twenty-eight percent of organizations that will reduce bank deposits will do so by between 10 and 24 percent while 21 percent of organizations will reduce these holdings by between 25 and 49 percent. Some organizations will make an even more dramatic shift: 20 percent of these organizations will reduce the size of their current bank deposits by at least half.

Anticipated Reduction in the Percentage of Short-Term Investment Balances Held in Bank Deposits Over the Next Six Months

(Percentage Distribution of Organizations that Anticipate Reducing Cash Balances as a Result of the Expiration of Unlimited FDIC Insurance)

By less than 10 percent	31%
By 10-24 percent	28
By 25-49 percent	21
By 50-74 percent	12
By 75 percent or more	8

The most likely destinations for any cash and short-term investments removed from bank accounts would be money market funds and Treasury securities/agency bonds. These choices reflect the continued preference of corporate investors for the safety of their investments over any possibility of yield. Forty-two percent of organizations would move at least some of these funds into Treasury-based money market funds while 41 would invest in Treasury securities and/or agency bonds and 36 percent anticipate using prime money market funds as destinations for investments currently held in bank accounts.

**Anticipated Destination of Cash Moved from Bank Deposits
When Unlimited FDIC Insurance Expires at the End of the 2012**
(Percent of Organizations that Anticipate Reducing Cash Balances
as a Result of the Expiration of Unlimited FDIC Insurance)

Treasury-based MMFs	42%
Treasury securities and/or agency bonds	41
Prime MMFs	36
Repos	20
Foreign denominated bank accounts	7
Other	12

Conclusions

Financial professionals anticipate 2013 will be another year of moderate economic growth featuring GDP growth of 1.7 percent and an expansion in non-farm payrolls of 1.3 million jobs. Nearly two in five employers anticipate adding workers to their U.S. payrolls during 2013 while only 20 percent will be shedding payrolls on a net basis.

Uncertainty—from uneven consumer demand to an ever-changing regulatory environment—has led to continued cautious behavior by companies. That caution, in turn, has been a major impediment to a more robust economic and jobs recovery. The most immediate source of uncertainty emanates from concern about the fiscal cliff. Should the expiration of tax cuts and the implementation of mandatory spending cuts occur as scheduled at the end of year, half of organizations represented in this survey will take some action—including reducing hiring, laying off workers and/or reducing capital spending—that would likely slow the economy, and may push it back into a recession.

But while financial professionals do not want to see the fiscal cliff occur as currently structured, they also do not support policymakers “kicking the can down the road” or putting off critical decisions that would address long-term federal budget deficits. Nearly all financial professionals agree government spending cuts must be a part of any solution dealing with the federal deficit, while a strong majority also agrees that increased tax revenues need to be part of any solution. Whatever the mix, the greatest opportunity to reduce the drag on the U.S. economy resulting from uncertainty is for leaders in Washington, D.C. to take definitive action addressing the federal budget.

Methodology

On November 26, 2012 AFP sent a 22-question survey to 6,000 of its corporate practitioner members that asked about their thoughts about and expectations for business conditions. Through December 7th, AFP received 524 responses generating a response rate of approximately nine percent (adjusted for undelivered email). 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 278 and 557 additional responses, respectively. The total 1,361 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 an organization with annual revenues of \$1.5 billion.

AFP has surveyed its members during the weeks following Thanksgiving each of the past nine years 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.

About AFP Research

AFP Research provides financial professionals with proprietary and timely research that drives business performance. The AFP Research team is led by Managing Director of Research and Strategic Analysis, Kevin A. Roth, Ph.D., and is joined by four research analysts. AFP Research also draws on the knowledge of the Association's members and its subject matter experts in areas that include bank relationship management, risk management, payments, and financial accounting and reporting. AFP Research reports on a variety of topics, including AFP's annual compensation survey, are available online at www.AFPonline.org/research.

About the Association for Financial Professionals® (www.afponline.org/about)

The Association for Financial Professionals (AFP) serves a membership of more than 16,000 treasury and finance professionals. Headquartered in Bethesda, Maryland, in the U.S., AFP provides members with news, economic research and data on the evolving world of treasury and finance, as well as world-class treasury certification programs, networking events, financial analytical tools, training, and public policy representation to legislators and regulators. AFP is the daily resource for treasury and finance professionals.

AFP's global reach extends to over 150,000 treasury and financial professionals worldwide, including AFP of Canada, the London-based gtnews, an on-line resource for the treasury and finance community, and bobsguide, a financial IT solutions network.

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