



Final Transcript

BUSINESS ROUNDTABLE: CEO Economic Outlook Survey

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SPEAKERS

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John Engler

PRESENTATION

Moderator Ladies and gentlemen, thank you for joining Business Roundtable's briefing on its first quarter 2014 CEO Economic Outlook Survey. The members of Business Roundtable are chief executive officers of the nation's leading companies from every sector of the economy. Collectively, they employ more than 16 million employees, produce \$7.4 trillion in annual revenues, and generate more than \$540 billion in sales for small and medium sized business annually.

The results of Business Roundtable's first quarter 2014 CEO Economic Outlook Survey reflects expected business conditions from its members' companies' perspectives for the next six months. Conducted quarterly since the third quarter of 2002, Business Roundtable CEO Economic Outlook Survey is the leading CEO-based survey of sales, capital spending, and employment projected over the next six months. This quarter's survey was completed between February 21st and March 7th, 2014; 122 CEOs completed the survey. You can find the results of this survey and results from previous surveys at www.brt.org.

Before I turn the call over to our host, please note that all telephone participants are in listen-only mode at this time. Later, we will conduct a

question and answer session where you will be given the opportunity to ask questions about the CEO Economic Outlook Survey. Today's conference is being recorded; if you have any objections, you may disconnect at this time.

With that, I will now turn things over to our host, Mr. Randall Stephenson, Chairman and CEO of AT&T and Chairman of Business Roundtable. Also joining Mr. Stephenson is John Engler, President of Business Roundtable. Please, go ahead, Mr. Stephenson.

R. Stephenson

Thank you, I appreciate it. And thanks, everybody, for joining us on what is a snow packed morning here in D.C. We just released the highlights, as you heard, from the Business Roundtable's CEO Outlook Survey, and what we wanted to do was take a couple of minutes to cover the findings and then answer any questions that you may have.

As you know, the Business Roundtable gets involved in a number of issues, but at the end of the day, we have, really, one overriding purpose and that's to advocate for public policies that will drive investment, hiring, and economic growth in the U.S. So, with that goal in mind, this survey is designed to pull together a snapshot of CEO sentiment concerning those variables.

The number one finding from the survey is that CEO expectations for overall economic growth in 2014 continue to be modest, at best. They're at 2.4%. That's obviously much slower than what we've seen at this point in past recoveries and it's well below what our economy is capable of; we believe it's in the 4% to 4.5% range.

Seventy-two percent of the CEOs anticipate sales will increase in the next six months. Basically, that's unchanged from last quarter. But 37% expect to add U.S. employees. Forty-four percent expect no change in their workforce and nineteen percent project their workforce will shrink.

The CEOs are a bit more optimistic when it comes to capital investment. Forty-eight percent project higher cap ex in the next six months. That's up from 39% in our survey last quarter. That's obviously encouraging because investment is the foundation and there's a very high correlation between private sector capital investment and sustained job growth.

Given the slow recovery we're seeing at the Business Roundtable, we obviously have a responsibility to get involved in a positive way, which is

why in January, the BRT spoke with one voice. We laid out four priorities to make our economy more competitive and to drive investment into the U.S. economy.

These are: first, fiscal stability, and we believe with the Ryan-Murray budget, we've made good progress, here. Second is business tax reform. Third, immigration reform. And last, expanded trade. We focused our outreach on these four areas and I'm encouraged by the response we've gotten from the administration, as well as on the Hill.

To get a better fix on their potential impact on the economy, we've included a couple of extra questions in the latest CEO survey and we think the results are instructive. For example, 56% of the CEOs said they would invest and hire more if Congress and the administration were to cooperate and act on business, immigration reform, and move forward on free trade agreements with both the European Union and Pacific nations. More than 70% said that expanded U.S. trade opportunities would have a positive effect on their businesses and 42% said they would hire additional employees if global trade expanded.

To get outside perspective on these issues, we've done a couple of additional things. Like last week we released a poll, it was conducted by the Winston Group, and it showed that more than 8 in 10 registered voters support the United States negotiating trade agreements that open markets and ensure fair and enforceable trade rules with high levels of support across all party lines.

We also commissioned an independent economic analysis on the broad economic impacts of tax reform. The work was done by Rice University's Professors John Diamond and George Zodrow. As a base case, they took the tax reforms that were incorporated into Dave Camp's proposal in the House Ways and Means Committee. They concluded that over 10 years, these changes would expand U.S. annual investment by 6.5%. It would boost after tax wages for American workers by 3.8%, and increase U.S. annual GDP by 2.2%.

Now, this kind of independent economic analysis we think is helpful. There is support for this at the grass roots level, there's support in Washington and it's growing, it's broader than, I believe, most people expect, and I do believe we can get things done this year. It's also important to the entire economy because tax reform, immigration reform,

and trade expansion will result in a step up in investment and, as a result, growth.

One additional comment before we get to questions. I think it's important to note that regulatory drag continues to be a major economic issue for our CEOs. In this survey, 9 out of 10 CEOs said regulation has had a negative effect on their investments and hiring. This isn't new; it's consistent with last quarter's results and it's further evidence that a light regulatory touch also would help drive investment, and thereby growth.

With that, we'll now turn it over to questions and hear what's on your mind. So, operator?

Moderator Thank you. We request that you limit your questions to the CEO Economic Outlook Survey. We will now take your questions.

We'll go to the line of Kent Hoover with *American City Business Journal*.

K. Hoover Yes, I was struck by your optimism about getting things done, because it seems like, yes, there was progress on fiscal stability, but the outlook for tax reform and immigration reform, in particular, don't look very promising this year, at least from an inside the beltway perspective. Then trade also looks like it might be a tough haul with Kerry Reed coming out against the Transpacific Partnership – or was it TPA? I forget which. But anyway, he doesn't seem very supportive of some of the trade moves.

So what is the source of your optimism?

R. Stephenson Look, we make the rounds, whether it be on the Hill, whether it be Chairman Camp's office, Senator Wyden's office, the administration. You are hard pressed to find – let's start with tax reform – people who do not recognize the potential benefits associated with tax reform. We have conversations with people – and this is bipartisan, it happens on both sides of the aisle – where you talk about the implications to investment if we could affect tax reform. If we could get to a more competitive tax structure and there is general, broad based agreement and support.

Exactly how you get there, there are obviously differences of opinion. But the idea that the U.S. is, per se, priced out of the market in terms of corporate taxation is generally regarded and accepted as fact. So you have a situation where there is broad, general agreement. Chairman Camp has laid out one proposal. That proposal, while it's had a number of

opponents in very specific areas – some parts people like, some parts people don't like – generally it has been regarded as a good, thoughtful first shot in terms of what tax reform would look like.

So, based upon the reception and the reaction and the conversation that's happening in D.C., we think there is general understanding of the importance and the necessity for it. Therefore, we're encouraged. Can you get something done in the next couple of months or before the election cycle begins? We don't know. But we think this is so important that it's worth a very, very aggressive push by all parties.

J. Engler

This is John Engler. I might add we're going to have nearly 100 CEOs here tomorrow. Mike Froman's coming over. We're convinced that we're going to be able to make progress on trade promotion authority. That's one of the priorities that the chairman just addressed, and clearly we've got to give our negotiators the strength to go into these negotiations to get the best deal.

By the same token, immigration reform is also a high priority, and I think that the House of Representatives, while there's been a lot of public disavowal, they continue to work quietly, and I think there's still a recognition that our country has to get this issue resolved. We're in a debate where the Senate passed a bill. I have every reason to believe we will get that done this year.

It's never easy. The best comment on tax reform probably applies to trade and immigration, as well. Senator Wyden said, "Look, tax reform is impossible until 15 minutes before it happens." That's sort of the way it works in Washington these days on a lot of these issues. So we're pursuing, aggressively, solutions.

Moderator

Thank you. We'll go next to the line of Jeffery Sparshott with *The Wall Street Journal*.

J. Sparshott

Good morning. Just wondering if you have any sense – I mean, you talked a lot about domestic initiatives, here, and your sales expectations and expectations for growth. But are overseas developments weighing on your economic outlook at all? Or are sales expectations or hiring plans, at all, especially I'm thinking, you know, slower growth in China and developments in Ukraine?

R. Stephenson Yes, when you consider the economic forecast by the CEOs of the BRT, virtually all of the U.S. based businesses have exposure to markets overseas and you cannot help but allow that to factor into your expectations in terms of U.S. growth. So where you have a lot of uncertainty and volatility surrounding Europe right now – the situation in Ukraine obviously causes one to pause and ask the question in terms of the implications to European growth, which has a direct and immediate effect on U.S. growth in an export based environment.

So, yes, I think that's weighing on everybody's concerns. I would tell you, by and large, though, right now, most CEOs, as we put our economic forecast for the U.S. out there, though, are – it's premised on kind of a business as usual approach. We're not seeing anything that causes us to be more negative about the U.S., but there's not a whole lot that causes us to think significantly more positive about it.

So everybody's capital forecast – you're seeing some increase in capital spending expectations as businesses begin to get full utilization of their manufacturing capacity. But by and large, not much incremental growth in hiring, and as a result you're seeing kind of business and usual economic forecast.

Moderator Thank you. We'll go on to the line of Tom Risen with *US News*.

T. Risen Being as tomorrow is the report from Janet Yellen's first Fed meeting, did the Fed weigh in on the CEOs' survey at all?

R. Stephenson I'm not going to speak for all CEOs. We did not poll people's expectations in terms of interest rates. But I think most CEOs, myself included, are under the guise of business as usual from the Fed standpoint. Continued tapering; I think they have signaled fairly clearly what their intents are and I'm not seeing any indication of expectation for change. So I think the 2.4% growth anticipates a continued tapering.

Moderator Thank you. We'll go next to the line of James Politi with *Financial Times*. Please go ahead.

J. Politi Hi, there. Thanks very much for doing the call. Just a follow-up on the question about the international outlook and the crisis in Ukraine. Is there a more specific concern amongst CEOs that U.S. sanctions could embolden Russia to retaliate and could get into a situation where U.S. investment in Russia is threatened and there could be a trade war between

the countries? Is that something that's been seriously looked at by U.S. CEOs and is there a lot of concern about that at the moment?

R. Stephenson Obviously, anybody doing business in Europe is watching the situation very, very closely. It's obviously an area of concern. I can't speak broadly for the CEOs, and I actually couldn't even speak to how that specific situation is weighing on the survey results because the survey was done largely before all this materialized, but obviously it's a major concern and we're all watching it very closely.

Moderator Thank you. We'll go next to the line of Luca Gattoni-Celli with *Tax Notes*. Please go ahead.

L. Gattoni-Celli Gattoni-Celli, but, you know, close enough. That's not the worst it's gotten. So, following up on the tax reform point, you said that you're confident that we can get things done this year, but what does that add up to? I mean, legislative action seems unlikely, so what steps do you think actually can be accomplished this year?

R. Stephenson We're not prepared to concede that legislative action cannot occur this year. And I will reinforce it again, whether it's Chairman Wyden on the Senate side or Chairman Camp on the House side and the administration – the President incorporated the need for business tax reform into his State of the Union address as a priority. So there is general, broad based recognition as to how important this really, really is. So I'm not prepared to concede that there will be no legislative action this year.

Now, obviously you are hearing some people talk about if we get to a place where legislative action cannot be achieved, then should there be some extenders that result in and become a bridge to tax reform? We would obviously be supportive of that, but we don't want to punt and move to extenders before we've made a very, very aggressive and hard run at getting actual legislative action done this year.

Moderator Thank you. We'll go next to the line of Lewis Krauskops with *Reuters*. Please go ahead.

L. Krauskops Hi, thanks for taking the question. I just had a – the economic data out today is about raised inflation and that how inflation is, again, pretty muted. I just wonder how do your members feel about what kind of pricing power they have right now. Do they feel like they have pricing power?

R. Stephenson We don't actually survey expectations on pricing, per se. But I think what most people are experiencing is kind of a low inflation environment. I think most people, we have all built our business plans around continued low inflationary expectations. So I probably couldn't represent the CEOs at large any greater than that.

L. Krauskops Thanks.

Moderator We'll go next to the line of Jim Landers with *Dallas Morning News*. Please go ahead.

J. Landers I'm interested to know what your CEO group is going to be doing tomorrow. Do you have specific meetings lined up? I mean, you talked about Mr. Froman, but who else are you expecting to see?

R. Stephenson Tomorrow's meeting, it may not surprise you, deals with three very specific issues: tax reform, trade, and immigration. We have folks from the Hill and the administration coming over the next day and a half to visit with us over specifically these issues. John, governor, you want to give specifics?

J. Engler Just real briefly. We have a tax committee meeting tomorrow morning, our education and workforce committees meeting and our committee on immigrations meeting. In each case, they'll be talking about issues that – and our healthcare committee's actually going to spend some time. They're going to have Secretary Sebelius in, so that should be an interesting session.

We're going to have Dr. Michael Porter down from Harvard talking about competitiveness, which, again, ties together the three themes that the chairman's talked about. We were scheduled to have Vice President Biden, but with him being in Europe, the Secretary of Defense is going to come in instead, so we'll have Secretary Hagel.

But we'll spend time on those tax, immigration, and trade issues. The whole purpose of that is to make sure that CEOs are fully aware of where the state of play is and as Chairman Stephenson's iterated, here, a couple of times this morning, we're not quitting on these issues. We think there is an opportunity, and I think following Chairman Camp, you can see here's a chairman who's meeting in a bipartisan way, R's and D's on his committee, broadening that out to other members of the House. And I

think that you've seen a softening in terms of even the House leadership's assessment of the value of doing tax reform because everyone is struck by how underperforming the economy is compared to where it ought to be at this point in a post-recession period. Tax reform, we persuasively, I think, are making the case, is a key contributor.

One of the interesting meetings in the tax committee, and I'll let it go at that, is that we are having a discussion of, the conversations are taking place over at the ... just on this whole question of international taxation. We think the Camp bill makes a strong effort to try and get some of that resolved, but that's an area of utter non competitiveness for us, at the moment, the way the U.S. tax laws work. But it's also somewhat affected, possibly, in the future by what happens and what changes might take place in Europe, and we want to try to get a good understanding of where that debate is over there.

Moderator Thank you. We'll go next to the line of Elahe Izadi with *National Journal*. Please go ahead.

E. Izadi Morning. You mentioned that the majority of CEOs would invest and hire more if Congress and the administration worked on tax reform, immigration reform, TPA, those sorts of things. I'm wondering if you have specific numbers just on the question of immigration reform. And mirroring a previous question on tax reform, it doesn't look like immigration reform is likely to happen before the midterm, so what do you think needs to happen, or what do you foresee happening between then and now?

J. Engle This is John Engle. I'll just take the first shot at this, but I think the Diamond-Zodrow analysis, the way that's calculated, that didn't get so much into the hiring numbers because their model just assumes a full employment situation, but the kind of economic growth that they suggest in that model, and actually some of the numbers that even came out of joint tax, all show pretty positive impact on GDP. That can lead, then, to an investment environment which, in turn, will generate the kind of hiring.

Often, I've found, as a governor, that directionally, if you're headed in the right direction, you begin to rebuild confidence and people start acting in anticipation of that. So part of this is – just the confidence you saw from Ryan and Murray, as the Chairman mentioned a bit ago, it kind of calmed things down on the fiscal side for a bit. We would make a very positive,

confidence boosting step forward if we were to start acting on these issues that have been sort of hanging for so long. All of that would be positive.

R. Stephenson From a business community standpoint – people talk a lot about ideas and thoughts on this. From a business standpoint, these are somewhat mechanical. You think about business tax, I mean that is a tax on capital investment, it's a tax on the profits derived from capital, and when you have the highest statutory rate among the developed world, you have put yourself at a disadvantage to attract new capital into these markets.

So just mechanically, by moving the statutory rate down, you will, inherently, attract greater capital. And the correlation between greater capital investment and hiring is really, really high. So the business community, we are all – actually, when you ask the question, it's just a matter of course. You have tax reform to lower the statutory rate, does that result in higher capital spending? Of course it does. Does higher capital spending result in higher employment? Of course it does. So from our standpoint, it's a bit arithmetic and mechanical.

Moderator Thank you. We'll go the line of Jim McTague with *Barons*. Please go ahead.

J. McTague Hi. I hope you'll invite me the Hagel session tomorrow – I'd love to sit in on that one. You have an interesting chart where you show the impact of regulations. Do you have a breakdown by industry of who's affected moderately, who's affected significantly, and who is not affected at all? Is there a breakdown by industry, number one? And number two, is the EPA the organization most often cited, or is it the healthcare plan?

J. Engle First of all, we don't offer any breakdown by industry of any of the data, so it's pretty much high level rollup of detailed data, so we wouldn't be offering any of that.

J. McTague And in terms of a regulation, is it healthcare or is it EPA stuff or something else?

J. Engle That is most driving this sentiment?

J. McTague Yes.

R. Stephenson Oh, I don't think you could be specific to any one agency. I mean, I think all of us in business are experiencing the difficulties associated with the

complexity of regulation and the cost of regulation and also just the unpredictability of regulation.

So what we're really encouraging at the BRT and our agenda is about smart regulation. Nobody believes there should be no regulation. In a developed society and a developed economy you expect and there should be regulation. What we're looking for is to ensure that the regulation is efficient; it's efficient to implement, it is efficient to oversee and to govern from the bureaucracies themselves, and that it's transparent and predictable.

You get those, businesses can operate and maneuver around them, but to the extent that it becomes less predictable and less efficient, then it just adds cost into the business and complexity into the business, and I think that's what you're seeing come out in the sentiment from the CEOs.

J. Engle And some of the regulation is as simple, but yet complex as how long does it take to get a permit issued. It may be that the regulatory expectations are acceptable, but it takes years to satisfy the paperwork. Or maybe other factors come into play. The Keystone Pipeline's long been a priority, here. That's actually a regulatory delay of a different kind.

So the question itself is complex, but I think the chairman's answer is spot on, from what we're hearing from our CEOs. Depending on which sector and what kind of industry, everybody feels the weight of it, though, and is paying the bill.

Moderator Thank you. We'll move on to the line of Chris Rugaber with *Associated Press*. Please go ahead.

C. Rugaber Hi, actually, I came in slightly late, but I just wanted to ask, you know, there's been all the talk of some of your guys' focus and agenda – I just want to know, the number does look relatively good in terms of the overall CEO index. So I may have missed this earlier, but it seems more confidence – you mentioned the increase in capital spending – what's behind the overall better outlook?

R. Stephenson It's, I guess I would suggest a positive index. It's premised on a economic outlook of 2.4%, which is nothing to sneeze at. I think what most people and what the BRT's concerns are is 2.4% is well below what's possible. What's possible is something significantly greater than that; we're many years into this recovery, now, and still chugging along at a 2%, 2.5%

economic growth rate, which I think all of us, in business, in Congress, the administration, view as unacceptable.

So what we're focused on is what do we need to do to move that into the realm of what's possible? What would it take to grow this economy into 4% plus range, which is achievable? And that's why we keep coming back to there are some really basic building blocks to drive this kind of growth, and we think the most powerful driver is tax reform, getting a competitive tax system in place.

J. Engle

One of the things that, I think, we're very sensitive to is people don't get lulled into accepting what we have today as some type of new normal. You have to go all the way back to 2005 to get a GDP for the year above 3%, so that's been away back. While we've got a projection in this index ... relates to cap ex that's the best in three years, that's all in comparison, too. Our index is above the average; our average over the years that we've been doing this is right around 80%, 79.7%, so we're a little bit above that.

But it's not where it could be, and I think the chairman said it in his opening comments, which I think you did not hear, but the expectations, what the potential of this economy is, is so much greater, and that's what we'd love to realize because that would take millions of people and put them back to work.

C. Rugaber

Okay. I guess, also, it was ... when I came in, I think there was a mention of just that, maybe, the government tax ... situation has also been stabilized, and maybe that's helping. I mean, it looks like it's the highest in two years, so I just was thinking there might be a reason for that, even though I know you want to focus on these other things.

R. Stephenson

No, your point, we addressed it earlier. It's not mistaken, and that is the fiscal stability that has been brought by the Ryan-Murray plan, we mentioned this, is not inconsequential. I mean, it's very difficult for large companies in the U.S. to make long term capital forecasts and long term capital commitments and hiring commitments when you're just kind of lunging from one fiscal crisis to the next, one quarter to the next.

So having a situation where you have regular ... government, we're actually operating off of a budget, there's some ability, now, for CEOs to begin to forecast, plan for longer term capital projects and hiring.

- C. Rugaber Right, and so then likely a factor in the increase in cap ex spending going forward?
- R. Stephenson It has to be a factor, yes. I can just tell you that myself. It does influence my thinking and how I think about capital budget.
- C. Rugaber Great, thank you.
- R. Stephenson Okay, listen, I believe we're out of time. So we're going to bring the call to a close. I want to thank everybody for joining us, and thank the BRT staff for pulling this together. I think it's very instructive in terms of the sentiment of our CEOs, and we're off to see what we can do to drive improvements in these numbers in terms of public policy, tax reform, immigration, and trade. So thanks, again, for joining us.
- Moderator Thank you. This concludes Business Roundtable's briefing on the first quarter 2014 CEO Economic Outlook Survey. A transcript of this call will be available tomorrow. Please visit www.brt.org for more information. Thank you.