



Final Transcript

BUSINESS ROUNDTABLE: The CEO Economic Outlook Survey

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SPEAKERS

Randal Stephenson – Chairman
John Engler – President

PRESENTATION

Moderator

Ladies and gentlemen, thank you for joining the Business Roundtable's briefing on its Third Quarter 2014 CEO Economic Outlook Survey. The members of the Business Roundtable are chief executive officers of the nation's leading companies from every sector of the economy. Collectively they employ more than 60 million employees, produce \$7.4 trillion in annual revenues, and generate more than \$540 billion in sales for small and medium-sized businesses annually.

The results of the Business Roundtable's third quarter 2014 CEO Economic Outlook Survey reflect expected business conditions from its member companies' perspectives for the next six months. Conducted quarterly since the third quarter of 2002, Business Roundtable's CEO Economic Outlook Survey is a leading CEO-based survey on sales, capital spending, and employment projected over the next six months.

This quarter's survey was completed between August 11th and August 29th, 2014, and 135 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. Randal Stephenson, Chairman and CEO of AT&T and Chairman of Business Roundtable. Also joining Mr. Stephenson is John Engler, President of Business Roundtable. Mr. Stephenson?

Randal

Thank you, and good morning. I appreciate everybody joining us this morning for the release of the Business Roundtable's third-quarter CEO Economic Outlook Survey. What I want to do is recap the results at a fairly high level and then offer some of my observations. Now the economic outlook survey index represents a composite of CEO plans for sales, capital spending, and employment for the next six months.

The index decreased moderately in the third quarter to 86.4, and that was from 95.4 in the second quarter. CEO plans for capital spending, hiring, and sales for the next six months all declined relative to the previous quarter. CEOs expect full-year 2014 GDP growth of 2.4%, and that's essentially unchanged from last quarter's projection which was 2.3%.

What does all this mean? The slight decline in the overall index wasn't unexpected because it reflects what I think all of us are seeing, and that's a fairly slow growth economy that ebbs and flows in stops and starts, but it's continuing to underperform relative to past economic recoveries and we think well below this economy's potential.

More than 70% of CEOs expect their sales to increase in the next six months, but this is what was interesting: Their expectations for capital investment and hiring were less optimistic. What you would normally expect to see is a tight correlation between the outlook for sales and then the outlook for capital spending and hiring, but this quarter there was a disconnect, and so I'm going to try to reconcile this disconnect.

As we think about it, last quarter most of us were expecting 2.3%, 2.5% GDP growth, and so our sales forecasts reflected that same impact. As we move into this quarter, the GDP forecasts are largely unchanged, and so the sales forecasts were largely unchanged. What did change from quarter to quarter, however—and this is more a sentiment issue than anything—is

that last quarter we were filling out the surveys and we actually had a fairly high expectation that the tax extenders legislation was going to pass.

It would serve as a bridge to full tax reform in the next year and our ability to invest and hire were a function of that. As we moved into this quarter, what we have seen is largely most of us are not terribly optimistic that the tax extender packages are going to happen. We don't have clear line of sight to the tax extenders, and as a result people are adjusting their outlook on capital spending, and outlook on capital spending obviously has a direct correlation to hiring.

So I think that's what we're seeing is less optimism, less line of sight to the tax extenders, and most of us are seeing the cost of investing in the second half of the year being higher because of the loss of—the lack of tax benefits associated with that investment. To that end, we did ask a point on tax reform or a question on tax reform. It was a special question, and what we found was nearly 90% of CEOs said that tax reform, including a corporate rate of 25% and a competitive territorial tax system, would encourage additional investments or cause them to expand their US operations.

So you take the lack of the action on tax extenders as a bridge to tax reform and what that did is probably dampen CEO sentiment on hiring and investment this quarter. We also do think that the growing conflicts we're seeing around the globe are impacting the outlook, and that's particularly true for any companies that are operating with significant sales outside the US.

So while our expectations for broad legislation are muted for this year, the survey results clearly indicate that Congress and the administration do need to act during a lame-duck session. We need to move forward on a growth agenda that would promote the confidence that's essential to driving investment and thereby hiring. So with that, we'll take your questions.

Moderator

We'll go first to Kent Hoover with American City.

Kent

On the tax extenders, which particular ones are most important for you as far as to encourage companies to invest? Is it the bonus depreciation, or is it the whole package, or are there certain ones that are more important than others?

- Randal Well, obviously the whole package would be important. The ones that I think you would draw a direct line of sight to lower investment are the accelerated depreciation or bonus depreciation. This is one very specifically—companies that are investing a lot of capital without bonus depreciation or bonus depreciation with line of sight to full tax reform does have an immediate impact to capital investment decisions.
- The R&D tax credit would also be the other one that we think is a really important one and is affecting capital investment as well. So the look-through rule obviously is important. The active financing income provision is important. But the ones that are obviously driving the lower capital spending forecast and outlook are bonus depreciation and the R&D tax credit.
- Kent What happened? It looked like there was—obviously the Senate had their version and the House had their version, but the differences seemed to be bridgeable. How did this fall out of—?
- Randal Your question is the question we're asking. What happened, right? Because it did seem back in second quarter that we had a workable solution, something that would keep investment flowing and keep companies hiring, and it has fallen off. I think what has transpired is we've gotten into election season, and in election season people are pulling in the reins and are more apprehensive about taking positions on these.
- Our concern is that we get past election season and will something get done and lame-duck, or will they try to push it into 2015. When people are trying to finalize their capital investment decisions there needs to be some clarity on this, so we are really going to be pushing assertively that Congress move these tax extenders in the lame-duck session and create a bridge to comprehensive reform.
- Moderator Next we have Chris Rugaber with The Associated Press.
- Chris I guess you mentioned in passing in the report in the press release impact of overseas conflicts and so forth. Can you perhaps elaborate a bit how big a drag has that been?
- Randal I couldn't put a quantitative impact on it. This is just a sentiment thing, and obviously what we are seeing around the globe, whether it be Russia,

whether it be the Middle East, these are all issues that do what anathema to investment, and that is create uncertainty.

When we are operating in an environment of higher uncertainty you just inherently are going to have a profile of businesses investing slightly less. So while these issues continued to bubble around the globe I think this is going to be an impact we're going to have to live with, and it's going to have a direct implication to US investment and US hiring.

Moderator Our next question is from Lori Montgomery with *The Washington Post*.

Lori There's been a lot of speculation that the inversion mania that has dominated some quarters of Washington lately is caused by corporate pessimism about the ability of Congress to get tax reform done, and my question is given the possibility that Republicans could take the Senate and control Congress do you think that corporate tax reform, or business tax reform, will become more likely or less likely next year?

Randal I think you phrase the question very, very well. I think you've hit an issue that in my conversations with Congress and the administration I think is very important, and that is these inversions do reflect people's expectations on what taxes will look like—not just what they are today but what they will look like in the future. These are long-term decisions.

I would suggest that to the extent that US businesses anticipated tax reform, meaningful tax reform, these inversions would begin to taper off very quickly because they're making long-term decisions. The inversions are nothing but a symptom of a broader problem, and that is the most uncompetitive tax system in the developed world, the highest tax rates in the developed world, and as a result companies are doing what you would expect them to do as rational actors, and that is finding ways to mitigate taxation.

So to the extent that comprehensive tax reform were anticipated I personally am convinced you would see fewer of these inversions because the inversions are just symptoms of a broader problem.

Lori But do you have higher hopes for next year with a Republican Senate?

Randal We actually had high expectations that something would happen this year, to be quite candid with you. It's an interesting situation where the US economy continues to underperform. There is general bipartisan

agreement that one thing that could drive economic growth faster than anything else is comprehensive tax reform, making our tax system more competitive.

There is agreement in the administration. There is agreement in the Senate. There is agreement in the House. But we are unable to push something to closure and get actually tax reform done, so we're hopeful that as we get past election season we get the extenders done, it buys us a bridge, and that there is a recognition that this is something that could drive economic growth like few other items we have.

John

You caught the conversation between Chairman Camp and Jason Furman last week, and our view is that no matter what happens in the election it's still going to take some bipartisanship. You're going to have a president in one party and a Congress perhaps of another party, but even in the Senate 60 votes is going to require both parties. So you end up in a situation where they have to work together.

We think, as the chairman just indicated, that given a push by the leadership in the Congress this can be done. Certainly the president has indicated a willingness to be supportive, so hopefully it gets done early. We would radiate reiterate the point again that Mr. Stephenson just made that there is no single thing that would matter more to boosting GDP and therefore investment and hiring than getting these tax rates competitive.

When you see The Tax Foundation out with a study and we come in at the lofty ranking of 32 in terms of most competitive tax structure, heaven knows we've got room to go. The compelling stat in that editorial on The Tax Foundation citing their report—when we started in the '80s when we had a 35% rate the average in the world was almost 50%, 49%. Today the average is 25%, and we're still at 35%. That's the problem.

Moderator

We'll go next to Michael Lindenberger with *The Dallas Morning News*.

Michael

I'm wondering if there is more opposition to your efforts to make momentum on the tax reform because of the continuing split within the Republican Party? I'm wondering if you feel like you have a strong enough ally on the Republican side than you might have expected, if that's become a factor in the lack of momentum on the tax reform recently?

Randal

No, I don't believe that at all. In fact, I'll say it again. This isn't a Republican issue. This isn't a Democratic issue. It's not a Congress issue

or a White House issue. There is general agreement that this needs to be done, and we're not seeing opposition on the Republican side or the Democratic side.

Consistent with what Governor Engler said, the big ask on this in terms of Republicans versus Democrats is not that wide, so we're at a place where there is a logical place to land a deal. I continue to be optimistic that something could get done once we get past elections. I just think we have to get past these elections so that we can begin to have good, productive conversations on this issue.

Randal I would suggest too Michael that same thing would apply to immigration, and that same sentiment with apply to trade and getting the president trade promotion authority. We're hopeful that we get past election cycle that some things could be done on each of these.

Moderator Our next question is from Lewis Kruskopf with Reuters.

Lewis It doesn't seem like you guys asked this question directly, but do you have a sense among the membership about how quickly CEOs expect the Fed to raise interest rates? It's obviously a topic at focus.

Randal I have no idea. I will not be prognosticating what this Fed does. I read the same—actually I read you guys' article, and so you probably have better insight on it than I do.

Lewis I was just wondering if you got any kind of sense talking to your membership about what their expectation was?

John We do have Janet Yellen coming to hear to speak to us in December, so maybe we'll get the inside bend.

Lois Can I ask another question then? How big a risk is concerns about a slowdown in the Chinese economy? Is that something that is factoring into planning and forecasts?

Randal Absolutely. It has to. China has been such a focus for many of our member companies over the last few years, and so obviously when you have that type of slowdown in an area that's been an investment focus it's going to have an implication to how you think about investment in general. So yes, I do not have data out of the survey to tell you that

there's a direct correlation between the two, but it just seems logical that one would drive that effect.

Moderator We'll go next to Eric Morath with *The Wall Street Journal*.

Eric You said that you have Chairman Yellen coming later this year to speak with you. What are some of the questions that you, and you expect CEOs, will have for her?

John That'll probably change a dozen times between now and December. Who knows. We try to get the Fed chair in periodically, and this has been scheduled for some time, and so we'll just have to see.

Randal CEOs are all kind of—we think we're rational characters. We're going to want clarity, and probably more clarity than she will be willing to offer. But you know, what is behind the decision-making process on moving the interest rate? How should we think about that blank help us forecast and anticipate what's going to happen in capital markets. It'll be a robust conversation I'm sure.

Moderator Our next question is from Jeffrey Bartash with Market Watch.

Jeffrey Job openings were at the highest level since 2002, but the number of jobs being filled is not growing as fast. Do you have any explanation why you think this is happening? With the unemployment rate falling, are you seeing any pressure in your company or in the industry or around on wages going up?

Randal It's an interesting question. I think the two are related. I would tell you the main issue that businesses in the US are facing today is a skill set match. The job openings versus the skill sets that are available in the marketplace are not a very good match, and I will tell you our company, AT&T, is experiencing this today. I think you see corporate America doing a lot of things to try to bridge the skill set match.

We're all engaged in a lot of training and development, skill set development opportunities, and trying to bridge this. I can tell you we have a number of jobs of ours that we're interviewing eleven people to fill one position. So that is something that we as a country are going to have to deal with, and I think you're seeing corporate America step up and deal with it most aggressively. I'm actually optimistic the overtime were going to have the ability to do this and match these skill sets.

As you look at wage inflation, what you're seeing is another indication of what I just said, and that is that the technical skill sets we are seeing some degree of wage inflation. That's a byproduct of supply and demand, and to the extent that we create greater supply of technical skills then that will obviously help in terms of wage inflation, but right now we are at the technical skill set seeing wage pressures.

Moderator We'll go next to Jim McTague with Barron's.

Jim I have a nerdy polling questions. You have 135 respondents this time, which is 2 more than the second quarter and 13 more than the first quarter. Why can't you get a higher percentage than 65%, and can we assume that all 19 members of the executive committee are respondents to this poll?

John Of course, 65 is a pretty handsome percentage of any universe. You do a lot with 800 voters nationwide to tell us what's going on in public attitudes and everything. I would say that we feel pretty good about that response level and are pleased that it stayed consistently high. I would think most of the executive members do respond.

We don't break it down. I don't go in and call CEOs and say, "Hey, we missed your response this time." This is pretty good, pretty consistent. Over the 12 years that we've done the survey, one of the things that I think is impressive is that the sentiments of the CEOs on the economy, on sales and investment have tracked pretty well. It's been a pretty good indicator of what are our key positions of thinking.

Randal We do a lot of polling at the BRT and as well at my company at AT&T, and anytime I can get a 65 response rate I'm considering that a very successful response rate.

Moderator We have a follow-up from Michael Lindenberger with the *Dallas Morning News*.

Michael Mr. Stephenson, I just wanted to drill in a little bit about your experience on the hiring front at AT&T. You mentioned 11 interviews for each position. Can you talk a little bit about that? Are you actually bringing in that many people and finding that they don't have the backgrounds that you hoped, or is it just the fact that you have really attractive positions and you like to have a broad view of applicants to consider? Just curious how it might have changed and what's driving those numbers?

Randal

It's not an AT&T call, so I'm not going to spend a lot of time on AT&T answers, but I would suspect our experience is consistent, and that is technical positions whether it be IT related, STEM-type jobs, that is where we are each experiencing a lot of demand. I will tell you most companies around the United States are doing a lot of hiring in the area of data analytics as well.

Those are very difficult positions to fill, and that's why a lot of us are doing our own training and development in these areas, and those are the ones where the number of qualified candidates relative to position openings is very, very mismatched. So technical skill sets, I would tell you across the board in the United States corporate America those are the ones where you're finding skill set match problems. That's the ones where we're all trying to address that with our own training.

John

I would say that the Roundtable has been very supportive, worked with both Congress and the administration on this Work Force Opportunities Investment Act that was signed by the president not too long ago. That was designed to help maybe retool some of these community colleges and the way they think about what kind of training. We've been concerned that the quality of labor market analysis in the country is weak, that we aren't identifying effectively enough these kinds of technical skill jobs and then adjusted the training that's being offered to recruit for those.

We're trying to close some of those gaps. We've been very active here in the blank and Eric Spiegel from Siemens, the education workforce committee is spending a lot of time on this, and we're working with Business Higher Education Partnership. There is much that can be done in this area. Over the weekend I was in Michigan and talked to a woman who was involved with a recruitment firm, and she had personally over 300 jobs that she was trying to fill, but the people that—and they just couldn't find the people because they need skills.

One of the tragedies is that we're spending a lot of money on a K-12 education system, and we're spending a lot of money on community colleges, and we're not matching up the training, and we're not acquainting people that there are works. A large part of the four million unfilled jobs in America today are jobs that require training, and the people haven't gotten the training. Just fixing that would make a huge difference.

Randal In all the areas of Congress where we get frustrated and things don't get done, there is one area where there's been legislation passed, and John just referenced it, and it is in this particular area. The members of the Senate health committee, their chairman Harkin is coming to the BRT tonight for a dinner, and we're going to recognize them for passing legislation that's really needed to improve the efficiency of the workforce training programs.

I think all our member companies are very appreciative and very supportive, and this is one area where Congress has acted. The present did sign the bill, and we got some things done. It's very important.

Moderator We now have a question from Vicki Needham with The Hill.

Vicki You guys mentioned trade promotion authority, and that's been another quiet policy area over the last few months. What are your hopes for that going forward this year? Do you hope to see something in lame-duck, or maybe what are your expectations for it?

Randal We hope to see something in lame duck. This one is another one of these that makes so much sense. The United States represents 4% of the world's population. We are a country that is dependent upon trade for economic growth. There are 600 trade agreements around the globe. The United States is party to only 14 of those.

If you think about areas that are required to get the economy moving, opening free trade is really just a really, really critical cause to all of this, and so what we're really pushing for is for Congress to give the president the same authority that every president since FDR has had. We're going to continue to be very assertive pushing Congress to get the president this authority. Hopefully we can get this done in the lame duck as well.

Moderator This concludes Business Roundtable's briefing on the third quarter of 2014 CEO Economic Outlook Survey. A transcript of this call will be available tomorrow. Please visit www.BRT.org for more information. Thank you. You may now disconnect.