News release

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Pages	4

CEO confidence in growth down

Majority of CEOs Say Global Economy to Remain Stalled in 2013

Fiscal deficits, over-regulation and the economy top concerns in PwC's 16th Annual Global CEO survey

DAVOS, SWITZERLAND – 22 January 2013 – Only 36% of CEOs worldwide are 'very confident' of their company's growth prospects in the next 12 months, according to PwC's 16th Annual Global CEO Survey. That's down from 40% who were 'very confident' of short term growth last year and 48% in 2011, but still above the lows of 31% and 21% in 2010 and 2009.

Looking at the economy generally, 28% of CEOs say the global economy will decline further in 2013, and only 18% predict economic improvement; 52% say it will stay the same. While the CEOs' outlook remains gloomy, the forecast is an improvement on last year when 48% of CEOs predicted the global economy would decline in 2012.

CEOs in Western Europe were least confident of short term revenue growth. Faced with ongoing recession, just 22% of Western European CEOs said they were very confident of growth, down from 27% last year and 39% in 2011. Confidence in short term growth also declined in North America to 33% (42% in 2012) and in Asia Pacific to 36% (42% in 2012). Even in Africa, seen by many as the next high-growth economy, CEO confidence in company growth slipped to 44%, from 57% last year.

Latin American CEOs, however, bucked the trend. Their short term confidence rose to 53% of CEOs, up slightly from last year.

At the country level, confidence varied widely: CEOs are most confident in Russia where 66% are very confident of revenue growth in 2013, closely followed by India (63%) and Mexico (62%). They were trailed by countries including Brazil (44%), China (40%), Germany (31%), the US (30%), the UK (22%), Japan (18%), France (13%) and finally Korea, where only 6% of CEOs are very confident of revenue growth in the year ahead. *[see note 2]*

Longer term, overall CEO confidence remained stable; 46% of CEOs worldwide said they were very confident of growth prospects in the next three years, about the same as last year. CEOs in Africa and the Middle East were most confident of long term growth, at 62% and 56% respectively. In North

America, 51% were 'very confident' of long term growth, while 52% in Asia Pacific were very confident. Long term confidence was weakest in Europe at 34%.

Releasing the survey results on the first day of the World Economic Forum annual meeting in Davos, Dennis M. Nally, Chairman of PricewaterhouseCoopers International, said:

“CEOs remain cautious about their short term prospects and the outlook for the global economy. However, given the high levels of concern among CEOs about issues - such as over-regulation, government debt, capital market instability - it is no surprise that CEO confidence has declined in the last 12 months.

"We find CEOs working to deal with the ongoing risks. Strategically, CEOs continue to refine their operations, looking to cut costs without reducing value as they manage through sluggish times. They are seeking growth opportunities organically, avoiding large outlays that could strap resources for the future. Most important, they have a clear focus on customers, collaborating with them more closely than ever on programmes to stimulate demand, loyalty and joint innovation," he said.

What worries CEOs most?

As the difficult economic conditions persist, CEOs are generally more worried about a wider range of issues than they were a year ago. Top of the list, a concern among 81% of CEOs about continuing uncertainty over economic growth.

Sending a clear message to governments around the world, other key CEO worries are the government response to the fiscal deficit (71%), over-regulation (69%) and lack of stability in capital markets (61%). CEO concerns about over-regulation are at their highest since 2006. When asked directly about the government response to the regulatory burden, CEOs are even more blunt, with just 12% agreeing that their government has reduced the regulatory burden in the last year.

When asked about the major threats to their business growth, CEOs also cited the increasing tax burden (62%), availability of key skills (58%) and the cost of energy and raw materials (52%).

Dealing with disruption

In order to build organisations that can survive and thrive amid disorder, CEOs are pursuing three specific strategies: targeting pockets of opportunity, concentrating on the customer and improving operational effectiveness

1. **Targeting pockets of opportunity**

   Some 68% of CEOs are focusing on carefully selected initiatives. They’re weighing up all their options, making a few smart investments and consolidating their resources to maximize the odds of success.

   Where CEOs see pockets of opportunity, nearly half are pinning their hopes on growth within existing markets, while only 25% are turning to new product development. And only 17% of CEOs are planning new mergers and acquisitions. For those CEOs planning an M&A, the top target regions are North America and Western Europe, with some evidence that CEOs are looking to take advantage of some difficult economic times to find a bargain.

China topped the list of countries seen overall as most important for future growth, cited by 31% of CEOs, followed by the US (23%), Brazil (15%), Germany (12%), and India (10%). Indonesia was listed among the top ten for the first time this year, two points above Japan. Among large companies (over US$10 billion), however, China was viewed as most important by 45% while the US dropped to 20%

2. **Concentrating on the customer**

   Nearly half the CEOs (49%) see shifts in consumer buying patterns as a serious business threat and 51% said their top investment priority for the next 12 months was growing their customer base. 82% of CEOs anticipate making changes to their customer growth and retention strategies – and 31% have major changes in mind.

3. **Improving operational effectiveness**

   Improving operational effectiveness is a top investment priority for CEOs. 77% have undertaken cost reduction initiatives in the past 12 months and 70% plan to do so in the next 12 months.

   But CEOs are wary about inadvertently cutting value. One indicator: 48% of CEOs have increased their company's headcount during the past 12 months, while 25% have kept it at the same level.

Jobs and the search for talent

CEOs remain relatively cautious on plans for increasing headcount for this coming year. 45% of CEOs plan to recruit in 2013 (down from 51% in 2012) while 23% plan to reduce the size of their workforce.

Looking at which industries are recruiting and which are shedding jobs shows an interesting picture. CEOs most likely to be increasing headcount are in business services (56%), engineering and construction (52%), retail (49%) and healthcare (43%). While the biggest number of CEOs planning headcount reductions are in banking (35%), the metal industries (32%) and forestry and paper (31%).

Whatever their hiring outlook, finding and keeping the right people remains a major challenge for CEOs. Availability of key skills was ranked by CEOs as a major threat to growth prospects, cited by 58% worldwide. The skills threat was especially acute among smaller companies and in high growth areas like Africa, the Middle East and Asia Pacific.

And the CEOs most concerned about the skills shortage were those in mining (75%), engineering and construction (65%), communications (65%), technology (64%) and insurance (64%).

In view of all this, it is unsurprising that more than three quarters (77%) of CEOs said they anticipate making changes in their company's strategies for managing talent during the next 12 months, and nearly a quarter (23%) said they expect the changes to be major.

Addressing public trust

CEOs also recognise the need to build trust with a wider set of stakeholders. 37% worry that lack of trust in their industry could endanger their company's growth, and 57% plan to focus more heavily on promoting an ethical culture. In addition, nearly half of CEOs (49%) plan to put more effort into reducing their environmental footprint in the next 12 months.

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Notes to editors:

1. **Survey Methodology:**
   For PwC's 16th Annual Global CEO Survey, 1,330 interviews were conducted in 68 countries during the last quarter of 2012. By region, 449 interviews were conducted in Asia Pacific, 312 in Western Europe, 227 in North America, 165 in Latin America, 95 in Central & Eastern Europe, 50 in Africa and 32 in the Middle East.

   The full survey report with supporting graphics can be downloaded at www.pwc.com/ceosurvey.

2. List of country/regional CEOs expressing they were very confident of 12 month growth: Russia (66%), India (63%), Mexico (62%), Middle East (53%), Africa (52%), South Africa (45%), Brazil (44%), Canada (42%), Romania (42%), ASEAN (40%), China/Hong Kong (40%), Germany (31%), Australia (30%), US (30%), Venezuela (30%), Argentina (26%), UK (22%), Italy (21%), Scandinavia (20%), Spain (20%), Japan (18%), Switzerland (18%), France (13%), Korea (6%).

3. PwC helps organisations and individuals create the value they're looking for. We're a network of firms in 158 countries with more than 180,000 people who are committed to delivering quality in assurance, tax and advisory services. Tell us what matters to you and find out more by visiting us at www.pwc.com.

