Ladies and gentlemen, thank you for joining Business Roundtable’s Briefing on its Fourth Quarter 2013 CEO Economic Outlook Survey conducted quarterly since the third quarter of 2002. Business Roundtable’s CEO Economic Outlook Survey is a leading CEO based survey of sales, capital spending and employment projected over the next six months. This quarter’s survey was completed between November 4 and November 21, 2013; 120 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’ll 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’ll now turn things over to our host, Mr. Jim McNerney, Chairman, President and CEO of the Boeing Company and Chairman of
Business Roundtable. Also joining Mr. McNerney is John Engler, President of Business Roundtable. Mr. McNerney, please go ahead.

J. McNerney

Thank you and hello, everybody, and thank you for joining us for the release of the Business Roundtable’s Fourth Quarter 2013 CEO Economic Outlook Survey, which as noted earlier is in its 12th year. The Business Roundtable CEO Economic Outlook Survey Index, which represents a composite of expectations for sales, capital spending and employment for the next six months increased in the fourth quarter of 2013 to 84.5 from 79.1 in the third quarter. The index signals that CEOs expect modest improvement in the outlook for economic expansion into the first half of 2014.

Our end of year forecast for 2014 GDP growth remains at 2.2%, slightly below other third party estimates for the coming year. CEO expectations for sales, capital expenditures and hiring increased relative to the previous quarter. These results indicate a slight uptick in optimism with expectations for more capital expenditures showing the largest increase among the three areas.

Every fourth quarter the survey also asks about cost pressures faced by business. In response, 39% of CEOs reported that regulatory costs were the top cost pressure facing their business over the next six months followed by labor and health care costs. Regulatory costs have been the CEO’s top cost concern now for three years running.

Taking a closer look at the data and what our members are projecting over the next six months we found that on sales 73% of member CEOs anticipate sales will increase in the next six months, up from 71% last quarter; 18% expect sales to remain the same, down from 21% last quarter. And 8% of our CEOs expect sales to decline, which is the same as last quarter.

On capital spending 39% of member CEOs project higher spending in the next six months, up from 27% last quarter; 50% expect spending to remain the same, down from 62% last quarter; and 12% project a decline, up from 11% last quarter.

On employment 34% of member CEOs expect to add U.S. employees, up from 32% last quarter; 45% expect employment to remain steady, up from
44% last quarter; and 22% project lower employment, down from 24% last quarter.

As I already mentioned, we combine the three categories; sales, capital spending, and employment into an index to provide a quick snapshot of anticipated economic conditions for the next six months. This leads to a composite diffusion index centered on 50 and results can range from negative 50 to positive 150; an index reading lower than 50 is consistent with overall economic contraction while a reading above 50 is consistent with expectations for expansion. The current index value of 84.5 remains well above 50 signaling expected ongoing economic expansion over the next six months.

In closing, the fourth quarter Business Roundtable CEO Economic Outlook Survey reflects slightly increased optimism despite an underperforming economy that continues to grow more slowly than we all would like. CEOs foresee continued modest overall economic growth of 2.2% in 2014 with improved expectations for sales, capital expenditures and hiring compared with last quarter’s survey results. CEOs remain concerned about ongoing uncertainty stemming from the continuing fiscal stalemate that in turn prevents work on, among other priorities, reforms to the corporate tax code and our immigration laws, both of which if accomplished would improve the country’s economic climate, attract investment and spur growth.

I, along with Governor Engler, will now be happy to take your questions.

Moderator (Instructions given.) One moment for our first question. We’ll go to Tim Mullaney with USA Today. Please go ahead.

T. Mullaney Hello, guys. My question is about the fiscal situation and how it would affect the results. There’ve been a lot of reports that Senator Murray and Paul Ryan are close to a deal that would involve fairly incremental change well short of grand bargain, but sufficient to mean that we don’t have another shutdown in January or a debt ceiling confrontation in February. Is that sufficient for the purposes of your respondents, or are they looking for more than that?

J. McNerney I think realistic expectations would center around a short-term deal of some sort. We all hope for more. I think there seems to be less strident posturing as Senator Murray and Congressman Ryan and their teams discuss the issue, somewhat more hope that a framework could come out that actually could be a precursor to regular order in the Congress
addressing the framework; but I think we all still have a healthy dose of skepticism, as well as a healthy dose of hope here.

I am convinced if just to get to your question specifically that if there was a framework that came out, it was for a meaningful period of time; it addressed some of the sequestration, some of the entitlement spending issues. I am convinced it would have a positive impact on the economy and the BRT’s stance here is to encourage both sides and to come up with ideas for both sides to find some common ground here, and we’re hopeful of that.

John, do you have anything to add to that?

J. Engler

No, I think the chairman is spot on. The return to regular order is really welcome, because you’ve got your budget chairs from the House and Senate working together, and that seems to be a process that can deliver results. I don’t think, as the chairman indicated, it’s going to be a big sweeping deal; everybody’s been pretty clear that tax reform is not going to be part of this at the present time. They’re probably not going to be touching entitlement reform, but getting back to a budget would be the first time in several years we’ve actually had that. That would be a welcome thing, putting the appropriators back to work on specific details, especially where it could involve some priority setting that the Congress is involved with versus simply across the board cuts.

All of that would allow us, I think, to avoid when we look at the data and you’ve seen the historic data, but if we go back to the fourth quarter of 2011, they really took the pins off from under the economy at that time. At the end of last year there was another downturn, so this December is a little bit better data point to look at, and you’d hope that the positive environment, and I realize I use that word conditionally in Washington, but the positive environment can get us a result and help give this economy a little bit of a lift.

Moderator

Our next question is from Ed Crooks with the Financial Times. Please go ahead.

E. Crooks

Thanks for taking the question. I really just wanted to follow up on that. When you talk about a positive impact of some kind of agreement, I’m just wondering if you could give some rough, and it’s hard to be precise, but a rough sense about the kind of the order of magnitude here in terms of its significance to the economy overall. When you think about the growth
outlook, do you think what’s been happening in Washington is the kind of a significant factor there? Is it the largest factor or a relatively minor one compared to other things that are going on?

J. McNerney

I think you have to have the backdrop that John implied in his answer, which is for five years we have not had a budget, and that does create a very uncertain environment for investment and other kinds of business building activities, nor have we had any reform of related issues like tax reform and the regulatory environment has been uncertain, so I think it does certainly play a role. It’s hard to say exactly how much, but we do have an economy that is on the cusp of growing a little bit more than just this 2% to 2.5% that we’ve been experiencing, which really doesn’t build much employment.

I think we’re looking for some kind of catalyst here. I am convinced Washington sorting themselves out can provide the kind of incremental lift that will give businesses a more predictable environment in which to invest a lot of the cash that’s on their balance sheets, to hire people, which will follow from that investment. We’re on the cusp here and so it wouldn’t take much and so the incremental impact of sorting some of these things out, in my opinion, can make a difference. That’s why the BRT is working so hard on trying to find a practical, pragmatic solution to the challenges and that’s why we’re somewhat heartened by the fact that the discussions appear to be among adults and begin to lead to regular order and an actual budget, which would I think be a very heartening experience for all of us.

John?

J. Engler

Yes, I think the chairman in an elegant way has explained it. If you pull back from chaos and uncertainty and the abyss and get back toward just doing your business that has a calming, soothing effect on everyone in terms of being able to look ahead. Now the next big hurdle would some day get to reform, so we could really turbo charge things, but given what we’ve had this is dramatic improvement and it needs to be nurtured and encouraged and brought to realization hopefully.

Moderator

Our next question is from Ernest Schneider from Thomson Reuters. Please go ahead.

E. Schneider

I’m wondering you were forecasting a rise in sales in the next six months if you could just provide a little color on specific areas. We’ve had retail and car sales come out here in the past few weeks, especially after the Black
Friday holiday rising, but discounting was a huge part of that. Could you just provide a little more color and clarity on areas and specifics on sales and how that will affect margins?

J. McNerney

It’s hard to say that any one area is driving it. Our companies represent a very broad swath of the economy. Some are up; some are down a little bit, but I think the big news is in aggregate that there is some expectation of increased sales. I think certainly health care probably is expecting some greater lift than other industries. I think computers and electronics slightly higher, but it’s really an across the board story with no major standouts.

E. Schneider

The Affordable Care Act or for other factors?

J. McNerney

I don’t know; it’s hard to say. I could give you my own personal opinion. I think Affordable Care Act does bring some additional revenues to companies that participate in the health care world, so it’s not surprising to me that there’s some expectation of growth there.

Moderator

(Instructions given.) Next we go to Jim Puzzanghera with LA Times. Please go ahead.

J. Puzzanghera

Getting back to the fiscal situation, I’m wondering do you have a sense of how much the uncertainty about another budget showdown is holding things back right now? I know you mentioned we’re on the cusp and that things seem to be progressing a little better this time in terms of talks in Washington, but how much is that uncertainty about what might come at the beginning of next year holding businesses back?

J. McNerney

Again, I don’t want to repeat it, but I think it’s hard to blame everything on the government and we’re not doing that. As we think about times past and over the broad swath of many decades, we have rarely had a five year period that is more uncertain than this one. In terms of being able to predict tax rates, regulatory outcomes. In fact, in our own surveys roughly half of the CEOs involved in the surveys do make the point in answering other parts of the surveys we didn’t discuss here today that all this uncertainty is holding back capital spending.

When you’re thinking about investing in a 20 year project, you do want to know your tax rate. You do want to know the regulatory cost that you have to absorb. These are vital and these are very unpredictable at this stage and so it’s natural that there’s an impact for business people.
J. Puzzanghera  Does that extend to hiring as well? You mentioned capital spending, but I’m assuming that translates to hiring, too, because those projects are going to involve bringing in more people.

J. McNerney  It directly translates to hiring. There is almost a perfect R square between capital investment and hiring and so you first hire to build what you’re investing in and then you hire to manage what you have built; and it happens fast. You can take a lot of different examples, but the Keystone pipeline is one example that’s been talked about, the hiring that will immediately happen in the building of it and then the follow-on hiring. That’s a perfect example of a capital investment that is not happening that could happen that would have a major impact on the economy.

J. Engler  I think it’s a hard story to cover and your question is a good one; but if you take the chairman’s example of Keystone, but in the defense space, sequestration is having an across the board impact that’s not discerning of where priorities maybe ought to be or need to be. If you’re over in medical technology, the new tax on medical devices has an impact and is that going to be repealed or not; and so you can work through your different sectors and today the stories are what’s the new regulatory scheme going to be on derivatives and hedging that impacts financial institutions and, frankly, about every other business in America that is of size that uses hedging, needs to use that for its daily work.

On and on I could go and I think that’s where you get into this question of predictability. That’s all budget deal, but it’s sort of environmental and I think the drag that we had with the failure to promptly do the debt ceiling the last time, the inability to do budgets, all that is a contributing factor. I think part of this is reflected in the survey, and so there’s an optimism here, but you do wonder what it could be if some of these things—

J. McNerney  And it’s not only not hiring, it’s in the face of the uncertainty, taking employment down. You mentioned the defense industry, which I have a working knowledge of. For the last two years firms have been shedding employment because they don’t know how to put together a business plan. And so it’s not only not hiring positively, it’s shedding employment to hedge the downside outcome, and it’s a difficult environment.

Moderator  Our next question is from Eric Morath from the Wall Street Journal. Please go ahead.
E. Morath  
I wanted to ask about the cost pressures that we saw both an increase in concern around health care costs and regulatory costs. How much of that increase do you think reflects concerns around Obamacare and either any uncertainty or concern around that?

J. McNerney  
Yes, I think both regulatory and health care could reflect the same concern. There’s no doubt that many in the American business community are concerned about the impact of Obamacare on their health care costs, whether it’s Cadillac tax, whether it’s cost shifting as Medicare and Obamacare force the health care system to lower costs for preferred kinds of services faster than providers can respond by taking out costs; therefore the costs shift over to profit making enterprises, which means companies and individuals, so that’s a big concern. So there is a whole host of—and then as Governor Engler pointed out, the uncertainty, there’s seems to be an exception every other day on the Affordable Care Act and is your preferred constituency going to get an exception or not get an exception. It’s hard to know, and so people respond by again hedging investment and hedging employment because the costs are not predictable and in many cases the outcomes can be bad.

Moderator  
Our next question is from Lorraine Woellert from Bloomberg. Please go ahead.

L. Woellert  
Following up on an earlier question besides Washington, what other concerns are on the horizon for your members, or what other broader things are they worried about, overseas, China, Europe, anything else; or is Washington to blame for everything?

J. McNerney  
No, no, we’re not that bad. I think the biggest concern is just a very sluggish, slow growth global economy and then Europe you’ve got a fragile financial system. You’ve got demographics moving in the wrong way. You’ve got entitlements weighing down other places to put your money in and so Europe you see a very low growth environment. In the developing world you see the volatility of up and down even though the trend is up. In our country there’s the sluggish environment that we’ve described that the stalemate in Washington certainly plays a role in it.

I think the biggest issue is just a slow growth environment that is not always business friendly, so we’ve all put together business strategies that assume slow growth. We’re focused on those things we can control, which are our ability to innovate, our ability to be productive and reduce costs,
and our ability to compete against other people, who are fighting for a pie that isn’t growing very fast.

L. Woellert  
What about the Fed, should they start tapering sooner than later?

J. McNerney  
Look, people smarter than, well maybe not smarter than John Engler, but smarter than me are debating this issue. I think obviously they have to taper at some point for the wellbeing of our financial system. The Chairman Bernanke will be speaking to us tomorrow, so we’ll ask him your question.

J. Engler  
We’ll get the answer.

J. McNerney  
But clearly they’ve chosen to keep interest rates very low to keep the economy in a very highly liquid state. I think we’re all mindful of the fact that tapering does have to happen somewhere along the line or we’re going to have a very difficult inflationary environment here, so exactly when we don’t know.

Moderator  
Our next question is from Dominic Rushe with The Guardian. Please go ahead.

D. Rushe  
You mentioned labor costs and the president today is going to talk about raising the minimum wage. I just wondered what you and your members thought of the impact of that would be.

J. McNerney  
I think the minimum wage move will not have a direct impact on a lot of our companies, although it will selectively, depending upon where people are doing business. In many cases if the workers are not productive commensurate with the increased labor cost, then we would move to places where the cost is commensurate with the productivity defined. In general, artificially propping up wage rates is not something that the business community favors.

John?

J. Engler  
I would think that we’re kind of a maximum wage orientation here; let’s get people into full time jobs. The problem in America is there’s no wages for many millions of people who don’t have jobs. I think the other fact that you’ve got people trying to get by on multiple part time jobs is not again an acceptable alternative to an economy that we’re maybe growing at 3.5%, 4% in GDP growth. Then you’d start to see things and so none of the jobs
on the Keystone pipeline are minimum wage, for example. Those are big
time jobs and there’s a lot of those kinds of jobs that I think are poised that
could happen in America.

D. Rushe
Do you think the minimum wage is what it is now it should stay where it is,
or do you think it should be raised or?

J. McNerney
It’s a distraction from I think I would argue, the states are dealing with this
in different ways. You’ve got localities trying to step up, but the reality is
that the states need to fix their pension systems. They need to get their
house in order. I think the nation needs to get busy on infrastructure. None
of those are minimum wage jobs. We’ve got a lot of cap ex that I think
could take place if the permissions were granted by the state or the local
governments or the federal government in some cases. That’s where the
focus ought to be. I think there’s a wage problem, but it gets fixed if
you’ve got an economy that’s growing.

Moderator
Our next question is from Jim McTague with Barron’s. Please go ahead.

J. McTague
I want to look at the regulation. You mentioned that the local rule is a
concern and I saw the letter you sent on December 2nd to the SEC regarding
the proposed rules for the pay ratio disclosure. Are there any other
regulations coming down the pike or recently adopted that are causing the
most headaches?

J. McNerney
I think pick a number. You’ve got the EPA considering right now what
they’re going to do on carbon regulation and a host of different emissions
that are being discussed. That has potential impacts that are pretty
expensive and probably the magnitude of which are unknown at this point.
You still have at the Department of Labor a lot of things that are in the
back room. Hopefully they’ll stay there, but you’ve got I think a
government and in some cases we’ve got state governments where there are
lot of things in play; and none of this is the focus that I think we’d like to
see on growth in America where we get the economy moving. That to me
is what everybody ought to get up every morning and think about what can
I do today to create jobs not to do more regulating of a smaller base of jobs,
but how do we have more jobs in America that have better wages attached
to them. That would be really refreshing.

Moderator
We do have a follow-up from Mr. Ernest Schneider from Thomson
Reuters. Please go ahead.
E. Schneider: Just a quick follow-up here again on retail sales, we’ve seen a lot of discounting. I’m wondering if that is a concern for margins as we move through the holiday season and into 2014 as sales increase, if discounting is going to affect margins; not just in retail, but across the economy.

J. McNerney: I think one way to answer that question not being a retail expert is that I think every member of the Business Roundtable, which represents about half of the U.S. economy, every member is facing price pressure; and every member is therefore trying to deal with costs. We don’t have an economy that’s growing very fast, so prices are coming down in most cases. There is not a lot of growth and so it’s you and your competitors using price to hold on to or gain market share is a common theme across the economy. Part of that equation is managing your costs as your margins face that kind of pressure. That’s what keeps employment from growing, so we always come back to the same place, which is lets promulgate laws and regulations that encourage overall economic expansion in this country; that’s what we’re advocating for. I think the retail example is probably just one example of that.

John, do you have anything to add?

J. Engler: I would say that your alma mater, the University of Michigan, their confidence index has come up a little bit, but consumers are also subject to atmospherics out there. I think there is a lot of concern. I think it’s much better. It looked like the retail sales were not as good as people had hoped. It looked like the Cyber Monday, I think I saw Walmart did a one day all-time record on theirs. You get a bit of mixed bag and I think it’s hard to be just taking my own family, you talk to people over the holidays, Thanksgiving, and they’re kind of—it’s a mixed bag.

I think that’s where a lot of Americans find themselves today. It isn’t as though they’re ebullient about where the economy is and ready to go out and spend, spend, spend. I think the after effects of ’08 and ’09 is still keeping them pretty conservative; but the good news is personal balance sheets seem to be getting into better position. So again, I think there’s some positioning there, but we’ll just have to see. I’d just like to see again that emphasis on growth, which will be good for job creation and ultimately great for consumer confidence.

E. Schneider: If we were to just encapsulate the message today, you really are putting the responsibility for growth in Washington it seems like.
J. McNerney: I think your questions are leading us in that direction.

E. Schneider: I wouldn’t be doing my job if I didn’t do that.

J. McNerney: I know, I know, I know. No, no, I think we have characterized it as a very important ingredient and one that given where we are can be a catalyzing ingredient to make a difference. And so it’s not the only thing, but it is a very important thing, particularly at this point in time, where we’ve had five years of total uncertainty that if resolved I think would make a difference to the outlook for many of the companies in our group and for economic expansion in this country, so it is important, no question.

J. Engler: We’ll have nearly 100 CEOs at the meeting tomorrow again and I think they’re going to be pretty consistent in that their views reflect a little more optimistic outlook, but there’s a difference between good and great; and this is okay, this is better, it’s good. But there’s a lot more out there and that’s what we ought to be aspirational about is how do we get there, not how do we accommodate this.

Moderator: Our final question will be from Kent Hoover with American City Business Journals. Please go ahead.

K. Hoover: Going back to the survey I was curious as to why the increase in capital spending expectations was much greater than the increase for sales and employment. It was like 12% increase for cap spending and only 2% for sales and employment.

J. McNerney: I think that was a good number and it tends to happen a little bit before employment and sales, so it is a little bit of a leading indicator within the index itself, so I view that as a positive.

J. Engler: I think things do wear out. I look at the vehicle industry, cars I have a little bit of a background there and you’re seeing some pretty good numbers there, but it’s time. The average age of those fleets out there, they’ve been going up; and there are other things. I do think that technology also continues to get so much better that there are people looking at those investments as part of a strategy to continue their productivity gains.

K. Hoover: All right. Thank you.

J. McNerney: Thanks, everyone. I guess that’ll do it.
W  Yes, that does it.

J. McNerney  We thank everyone for attending today. Have a happy holiday season, all. We’ll see you in the new year with our new chairman, the Chairman and CEO of AT&T, Randy Stevens.

J. Engler  Thank you. Thanks, Amanda.

Moderator  Ladies and gentlemen, this concludes Business Roundtable’s briefing on the Fourth Quarter 2013 CEO Economic Outlook Survey. Please visit www.brt.org for more information. Thank you.