Diligent Institute | CORPORATE BOARD MEMBER

Director Confidence Index Retreats In March

Director Confidence Index
March 2023

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After significant back-to-back increases in January and February, directors' outlook for business 12 months out slipped this month amid growing signs of economic headwinds.

Reach out to the nation's community of corporate board members to ask them about where they think the economy is headed over the next year—as we just did—and you'll get some interesting takeaways:

The good news:

A growing proportion of directors see the business landscape improving in the next 12 months—39 percent, up from 34 percent in February.

The bad:

The extent of that improvement is getting smaller—from a 26 percent increase in their rating on a 10-point scale, to a 24 percent increase.

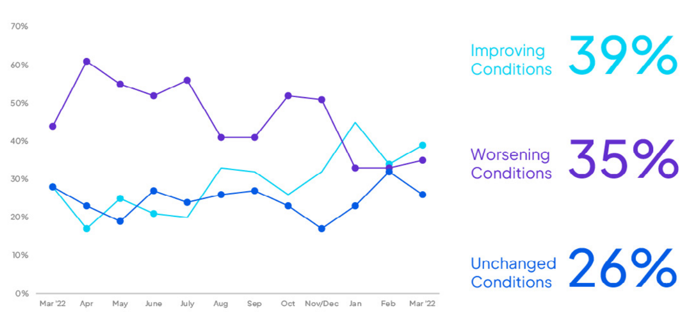
The ugly:

A growing proportion expects conditions to deteriorate over that same period—35 percent, up from 33 percent in February.

What's behind the change won't come as a surprise to this audience. Slowing demand, heightened geopolitical risks and the Fed's continued tightening through the latest bank run didn't provide much comfort to directors that the U.S. economy would rebound and avoid a recession in the coming months, as many had predicted in January.

Instead, according to the latest data collected as part of *Corporate Board Member*'s Director Confidence Index, a monthly survey conducted in partnership with the Diligent Institute to take the pulse of public company board members on their outlook for business, more directors now expect conditions to have worsened by this time next year (35 percent in March vs. 33 percent in February).

Director forecast of business conditions



Even among the minority of directors who said they expect business conditions to have improved by March 2024, the outlook is dimming. They are forecasting conditions to be a 7.06 out of 10 by then (on a scale where 10 is excellent and 1 is poor), down from 7.21 when asked the same question just a month prior.

Still, that's much better than the overall average. As a whole, the 185 board members polled March 20–23 rated their forecast for business 12 months out a 5.84 out of 10. That is 7 percent lower than the prior month (6.28) and more than 7 percent off March 2022 levels.

And when looking only at those directors who expect a decline, that rating drops to 4.49, well into "Weak" territory according to our scale labels.

"The collapse of Silicon Valley Bank and challenges with Credit Suisse do not engender confidence," said Barbara Higgins, an independent director on the board of Employers Holdings, adding that "the current conundrum of continuing to raise interest rates vs sending the economy into recession" is also affecting her outlook.

"The recent banking failures have business leaders very wary," said David Frenette, a director on the board of HarborOne Bancorp. "[And] the Fed's raising of interest rates in fighting inflation will contract the economy."

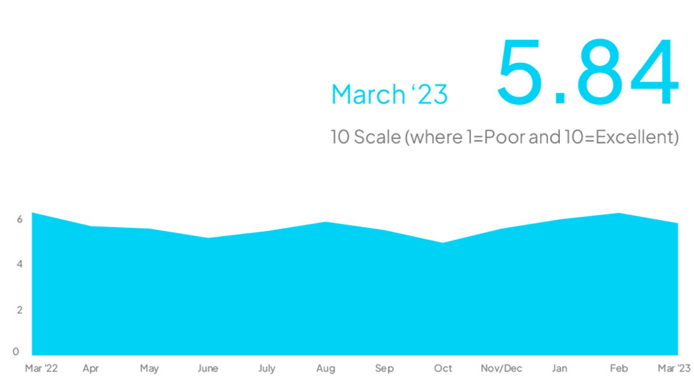
Directors' rating of current business conditions followed a similar trajectory, regressing 5 percent to 5.84 in March, from 6.16 last month—largely due to the recent bank crisis.

All of this aligns with findings from Diligent Institute's Corporate Sentiment Tracker, an AI-powered tool monitoring the issues corporate leaders are speaking about most frequently in the news. At the time this story is being written, "Banking" and "Economic Risk" are the top issues being discussed publicly.

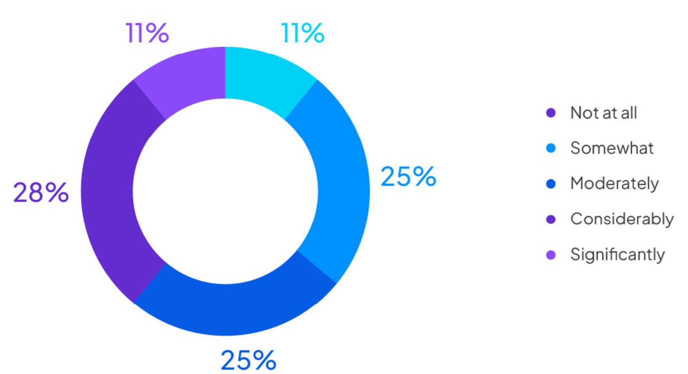
"Anyone who has studied how Volker battled to tame inflation in the '80s must be concerned about the magnitude of the task ahead of the Fed in taming the current inflation," said an independent director who preferred to remain anonymous. "Outside of dealing with whether real interest rates will be needed to tame inflation, historically high govt. spending will hinder the Fed's progress on taming inflation over the coming month/years."

Overall, directors rate the impact of the Fed's policy on their company's ability to compete a 6 out of 10—highlighting a divide depending on the sector of activity.

Director business outlook - 1 year out



Impact of the Fed's policy



"While we may have a short-term recession, we feel like the low unemployment and high demand for goods / services will continue to fuel long-term growth and spending," said David K. Neal, a director on the board of Aclarion.

While other directors also said demand had remained strong, certain sectors haven't been as lucky, and many reported a slowdown they believe to have been caused by rising rates.

What happens next, "everyone seems to be guessing," said Kim Korth, a director of the board and the chair of the compensation committee at Stoneridge. "[There's] massive uncertainty in our clients' perception. Some key clients are down 50 percent in the first quarter, others are up 50 percent."

Meanwhile, there are some positives beneath all of this, directors say: improvements in the supply chain, healthy capital on the sidelines, a relative slowing of wage growth, a trend to more normal unemployment and strong fundamentals are all pointing to a sign that once inflation has been tamed, growth will return.

"I think there is more anxiety than is actually merited," said a director on the board of a large energy company. "I believe despite the current optics, the Fed is succeeding in bringing inflation down."

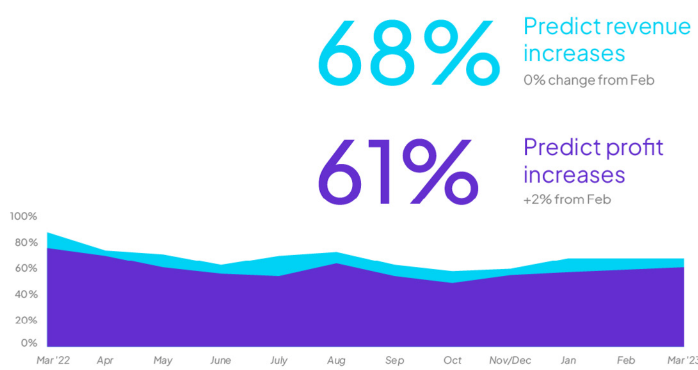
The year ahead

With so many complexities, it's not easy to predict the months ahead, which may explain why directors' forecasts have held relatively steady month over month: 61 percent continue to expect profits to increase in the coming year (up from 59 percent in February), and 68 percent said the same of increasing revenues (unchanged since February).

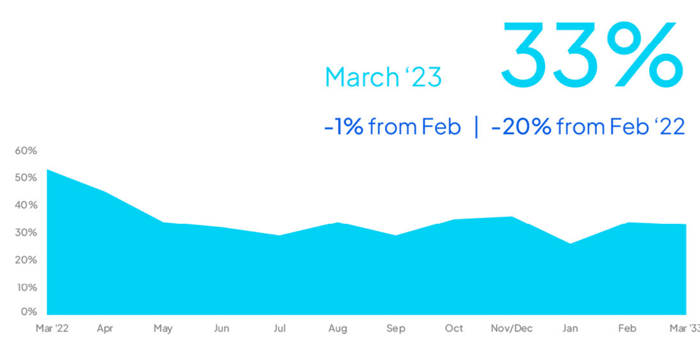
A full third plan to increase capital expenditures over the coming year, vs. 34 percent in February.

Directors say despite their expectation for worsening conditions in the near term, most companies are being diligent about the heightened level of risks, acting with caution, increasing liquidity and delaying larger projects until there is more clarity in the market—all of which, they say, will support a strong recovery into 2024.

Directors projecting profit & revenue increases - 1 year out



Directors projecting capex inc. - 1 year out



About the Director Confidence Index

The Director Confidence Index is a monthly survey of public company board members on the state of the overall economy, the outlook for business and other topical issues impacting public companies. Conducted in collaboration between Corporate Board Member and Diligent Institute, the Index benchmarks confidence among the governance community and is a forward-looking indicator of market movements and corporate strategies.

About Corporate Board Member

Corporate Board Member, a division of Chief Executive Group, has been the market leader in board education for 20 years. The quarterly publication provides public company board members, CEOs, general counsel and corporate secretaries decision-making tools to address the wide range of corporate governance, risk oversight and shareholder engagement issues facing their boards. Corporate Board Member further extends its thought leadership through online resources, webinars, timely research, conferences and peer-driven roundtables. The company maintains the most comprehensive database of directors and officers of publicly traded companies listed with NYSE, NYSE Amex and Nasdaq.

About the Diligent Institute

Diligent Institute informs, educates, and connects leaders to champion modern governance. We provide original, cutting-edge research on the most pressing issues in corporate governance; certifications and educational programs that equip leaders with the knowledge and credentials needed to guide their organizations through existential challenges; networks that convene directors and corporate executives to share best practices and insights; and awards and recognition programs that celebrate the accomplishments of those who champion modern governance. Learn more at diligentinstitute.com.