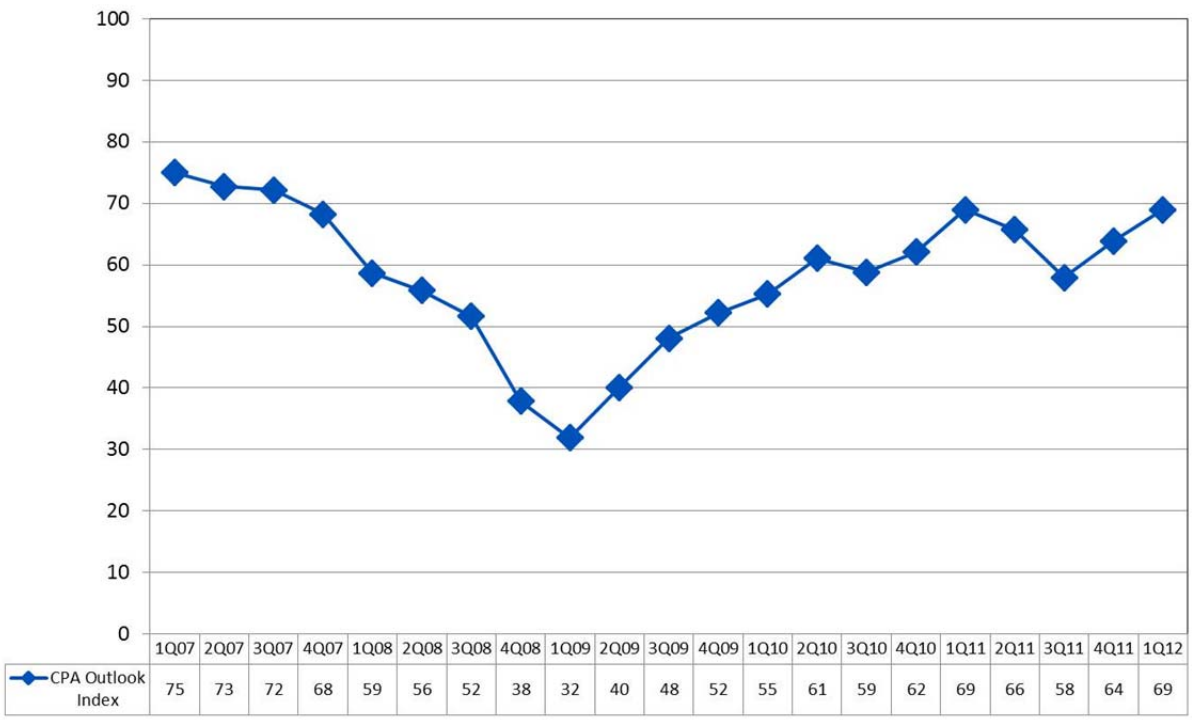
AICPA Business & Industry U.S. Economic Outlook Survey 1Q 2012

The CPA Outlook Index

The CPA Outlook Index (CPAOI), introduced in Q1 2011, is a broad-based indicator of the strength of US business activity and economic direction that reflects the views of CPAs who are AICPA members in Business & Industry holding executive positions in both public and privately-owned organizations of all sizes, and across a broad spectrum of industries.

The CPA Outlook Index (CPAOI) continuted its upward trend this quarter increasing another 5 points following on a 6 point increase in 4Q 2011. Again this quarter the largest contributor to the increase was the outlook for the US Economy which was up another 21 points this quarter following a 15 point increase last quarter. Tempering the positive message somewhat is the fact that the index is still below the level of 1Q 2011.

CPA Outlook Index -- ↑ 5



Component	1Q11	2Q11	3Q11	4Q11	1Q12	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	65	53	25	40	61	↑21	↓04
Organization Optimism	70	68	60	65	72	↑ 07	↑ 02
Expansion Plans	77	73	66	70	74	↑ 04	↓03
Revenue	77	72	67	70	76	↑ 06	↓01
Profits	69	64	62	67	69	↑ 02	←→
Employment	63	62	58	62	64	↑ 02	↑ 01
IT Spending	70	72	68	73	75	↑ 02	↑ 05
Other Capital Spending	66	66	60	66	67	↑ 01	↑ 01
Training & Development	64	62	56	62	66	↑ 04	↑ 02

The CPA Outlook Index

The CPAOI is a robust measure of sentiment about the US economy that is supported by the unique insight and knowledge that CEOs, CFOs, Controllers, and other CPA executives have about the prospects for their own organizations, their expectations for revenues and profits, and their plans for spending and employment.

The CPAOI is a broad-based composite index that captures the expectations of our members and their plans for a breadth of indicators of economic activity. It is a composite of the following nine measures at equal weights:

- **US Economy Optimism -** Respondent optimism about the US economy.
- **Organization Optimism -** Respondent optimism about prospects for their own organization.
- **Business Expansion -** Respondent expectations of whether their business will expand over the next 12 months.
- **Revenues -** Expectations for revenue over the next 12 months.
- **Profits -** Expectations for profits over the next 12 months.
- **Employment -** Expectations for headcount over the next 12 months.
- **IT Spending -** Plans for IT spending over the next 12 months.
- **Other Capital Spending -** Plans for capital spending over the next 12 months.
- **Training & Development -** Plans for spending on employee training and development over the next 12 months.

Each individual component indicator is calculated by taking the percentage of respondents who indicated that their opinion or expectation for the metric is positive or increasing, and adding to that half of the percentage of respondents indicating a neutral or no-change response. A reading above 50 indicates a generally positive outlook with increasing activity. A reading below 50 indicates a generally negative outlook with decreasing activity.

As an example, if 60 percent of respondents indicate an optimistic or very optimistic view, and 20 percent express a neutral view, the calculation of the component indicator would be 70 [60% + .5 x 20%].

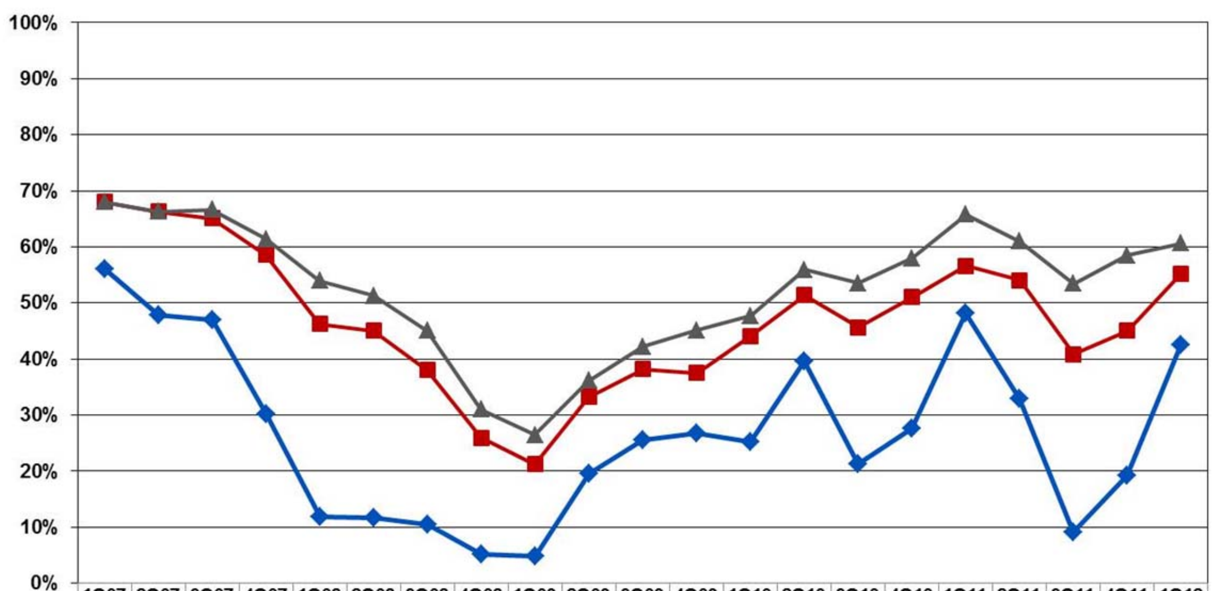
Outlook for the US Economy and Organizations

Outlook for US Economy and Organizations improves again; remains below 1Q 2011

For the second consecutive quarter, the percentage of CPA executives identifying themselves as optimistic or very optimistic about the US Economy more than doubled again this quarter going from 19% to 43% after going from 9% to 19% last quarter. The percentage of pessimists dropped from 40% to 22%. However these numbers are still below 1Q 2011 when 48% were optimistic and only 18% were pessimistic. Pessimists most often cited concerns about the government, regulations and the political environment in Washington, the size of the US debt & budget deficit and continued unemployment as the reasons for their pessimism. Optimists were most frequently mentioned reduced unemployment and increased optimism about the housing market and other signs of economic growth as reasons for feeling more optimistic.

CPAs' outlooks concerning their own organizations improved by 10% this quarter with over half, 55%, considering themselves optimistic or very optimistic. This is still slightly lower (but not significantly so) than a year ago when 57% were optimistic. The increase in optimism was matched by a 4 point decrease in pessimism and optimists now outnumber pessimists by slightly more than 4 to 1 margin (55% to 12%). Expectations for expansion increased by 2%, with 61% of CPA executives now expecting their organization to expand at least somewhat in the next 12 months. This is down from 1Q 2011 when 66% of respondents expected expansion and statistically unchanged from 4Q 2011 when 59% were expecting to expand.

Outlook for the US Economy, Organizations & Expansion



	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12
US	56%	48%	47%	30%	12%	12%	11%	5%	5%	20%	26%	27%	25%	40%	21%	28%	48%	33%	9%	19%	43%
Organization	68%	66%	65%	59%	46%	45%	38%	26%	21%	33%	38%	38%	44%	51%	46%	51%	57%	54%	41%	45%	55%
Expansion	68%	66%	67%	61%	54%	51%	45%	31%	26%	36%	42%	45%	48%	56%	54%	58%	66%	61%	53%	59%	61%

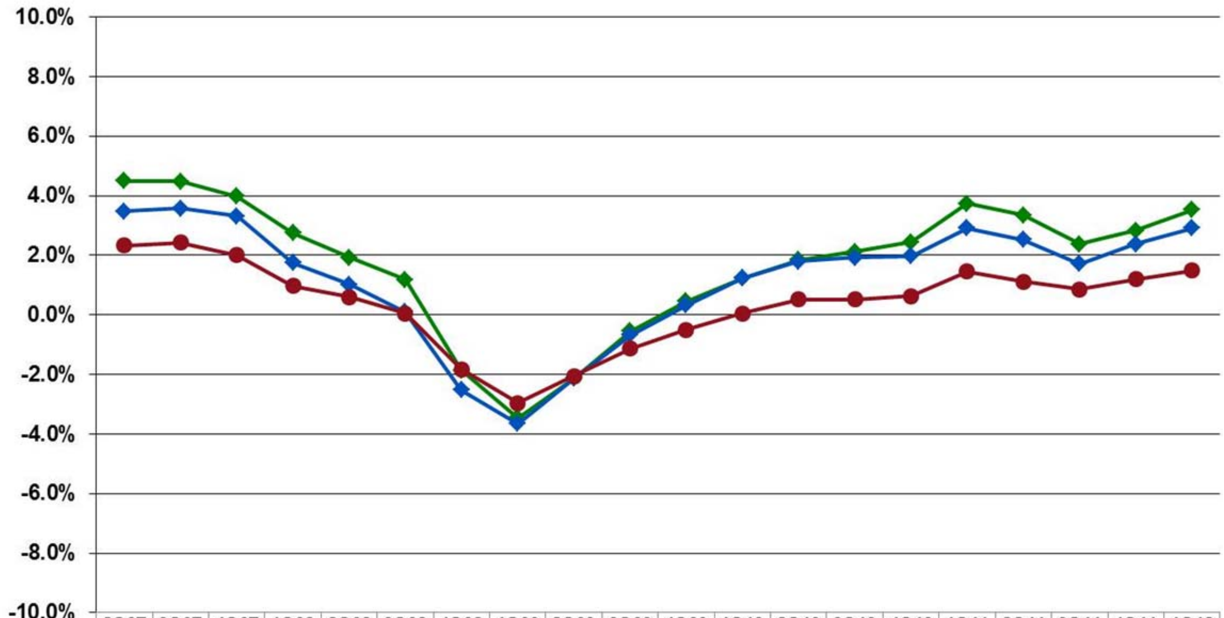
Concerns about inflation dropped slightly this quarter – only 37% of CPA respondents are concerned about the prospects for inflation over the next six months. This is down significantly from 2Q 2011 when 61% were concerned. Concerns about deflation dropped from 11% to 6%. Respondents who were concerned about inflation were most likely to identify raw material costs as the primary concern followed by energy costs and labor costs.

Key Performance Indicators

Expectations for revenue, profits and staffing improve while spending plans stabilize

Expectations for revenue, profit and employment growth continued their upward trajectory this quarter with all three improving from 4Q 2011. While expectations improved Q to Q, expectations are essentially unchanged on a Y to Y basis. Respondents expect revenue to grow an average of 3.5% in the next 12 months, up from 2.8% in 4Q 2011. Profits are expected to increase 2.9%, up from 2.4% last quarter. The average increase in staffing levels over the next 12 months is still expected to be small with an increase of 1.5% expected, up from 1.2% in 4Q 2011.

Expectations for Revenue, Profits and Staffing



	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12
Revenue	4.5%	4.5%	4.0%	2.7%	1.9%	1.2%	-1.9%	-3.5%	-2.1%	-0.5%	0.5%	1.2%	1.8%	2.1%	2.4%	3.7%	3.4%	2.4%	2.8%	3.5%
Profit	3.5%	3.6%	3.3%	1.8%	1.0%	0.1%	-2.5%	-3.7%	-2.1%	-0.7%	0.3%	1.2%	1.8%	1.9%	2.0%	2.9%	2.5%	1.7%	2.4%	2.9%
Employees	2.3%	2.4%	2.0%	1.0%	0.6%	0.1%	-1.8%	-3.0%	-2.1%	-1.1%	-0.5%	0.1%	0.5%	0.5%	0.6%	1.5%	1.1%	0.9%	1.2%	1.5%

Respondents continue to expect that the prices they pay will increase more than the prices they can charge but the gap closed to .7%, the smallest amount since 2Q 2009. Prices paid are expected to increase by 2.1% (the same as 4Q 2011) over the next twelve months while prices charged are only anticipated to increase by 1.4% (up .2% from last quarter). Expectations for salary increases are also stable this quarter staying at 2.0%, not significantly changed from last quarter's 2.1%. Expectations for healthcare cost increases stopped the steady downward trend of 2011 and increased from 6.0% to 6.2%.

After rebounding last quarter expectations for spending leveled off this quarter, increasing insignificantly from 4Q 2011, but remaining above 1Q 2011 levels. CPA respondents expect the greatest increase in IT spending which is now expected to increase by 2.8%, virtually unchanged from 2.7% last quarter, and up from the 2.3% increase expected in 1Q 2011. Other capital expenditures and spending for training and staff development are also expected to increase by 2.1% and 1.4% respectively, not significantly different from the 2.2% and 1.2%

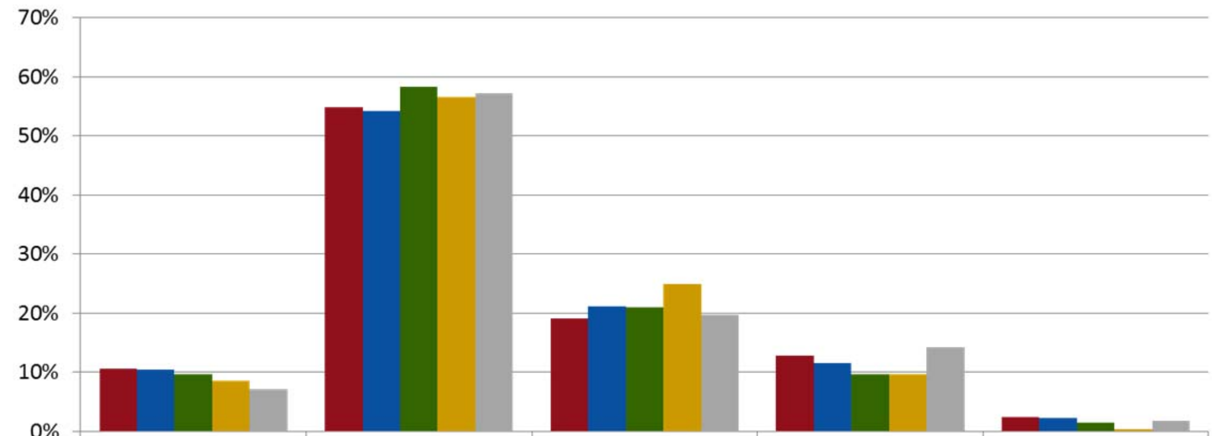
expected in 4Q 2011. Expectations for spending on marketing were stable at 1.8%, while expectations for R&D expenditures did improve slightly from 0.9% to 1.2%.

Hiring Plans

Organizations that need employees are beginning to hire but the total number needing employees is stable

Expectations for hiring were positive for the short-term but more mixed for the long-term. The percentage of CPA executives who said that their organizations need employees and plan to hire increased by 4% from 10% to 14% this quarter. This was offset by a 5% drop (to 20%) in the percentage of respondents who said that their organizations have too few employees but are hesitant to hire. The total percentage of organizations needing employees remained stable at 34%. The number of organizations indicating they had the right number of employees was also stable at 57% while the number indicating they had an excess number dropped 2% to 7%. Two percent of respondents answered "other" with a number of these commenting that their staffing situation was mixed – excess employees in some areas while other areas required staff.

Staffing Relative to Needs



	We have an excess number of employees	We have approximately the appropriate number of employees	We have too few employees, but are hesitating to hire	We have too few employees and are planning to hire	Other
1Q11	11%	55%	19%	13%	3%
2Q11	11%	54%	21%	12%	2%
3Q11	10%	58%	21%	10%	2%
4Q11	9%	57%	25%	10%	0%
1Q12	7%	57%	20%	14%	2%

Liquidity

Liquidity positions remain relatively stable, continued reluctance to deploy excess

Respondents remain reluctant to deploy capital. The majority of the respondents' organizations continue to have at least as much cash as they need with 34% (down from 37% last quarter) having more than they need and 44% having about the right amount. Only 14%, the same as last quarter, plan to deploy excess liquidity, while 20% (down from 23% last quarter) continue to be reluctant to deploy their excess. The percent of CPA decision-makers say their organizations need capital increased slightly from 19% to 22% this quarter. The percentage of companies indicating the had less liquidity than the needed, but that either availability of pricing was a barrier to obtaining credit increased to 13% this quarter, up from 10% in Q4 2011.

Overall the majority of respondents (56%) believed that obtaining credit would not be more or less difficult than in previous quarters. About 12% felt it would be more difficult while 9% felt it would be less difficult. Forty-four percent of respondents had plans to raise capital, with 18% planning to use short-term borrowings, 11% planning to use long-term debt and 9% planning to use private equity/debt.

Top Challenges

Top challenges remain unchanged

The Top Three challenges remained the same as in 4Q 2011 with Domestic economic conditions topping the list followed by Regulatory requirements/changes and Employee and benefits costs.   Stagnant/declining markets moved from 4th to 6th with Domestic competition and Domestic political leadership each moving up one spot. This quarter was the second quarter to use the new list of potential challenges.

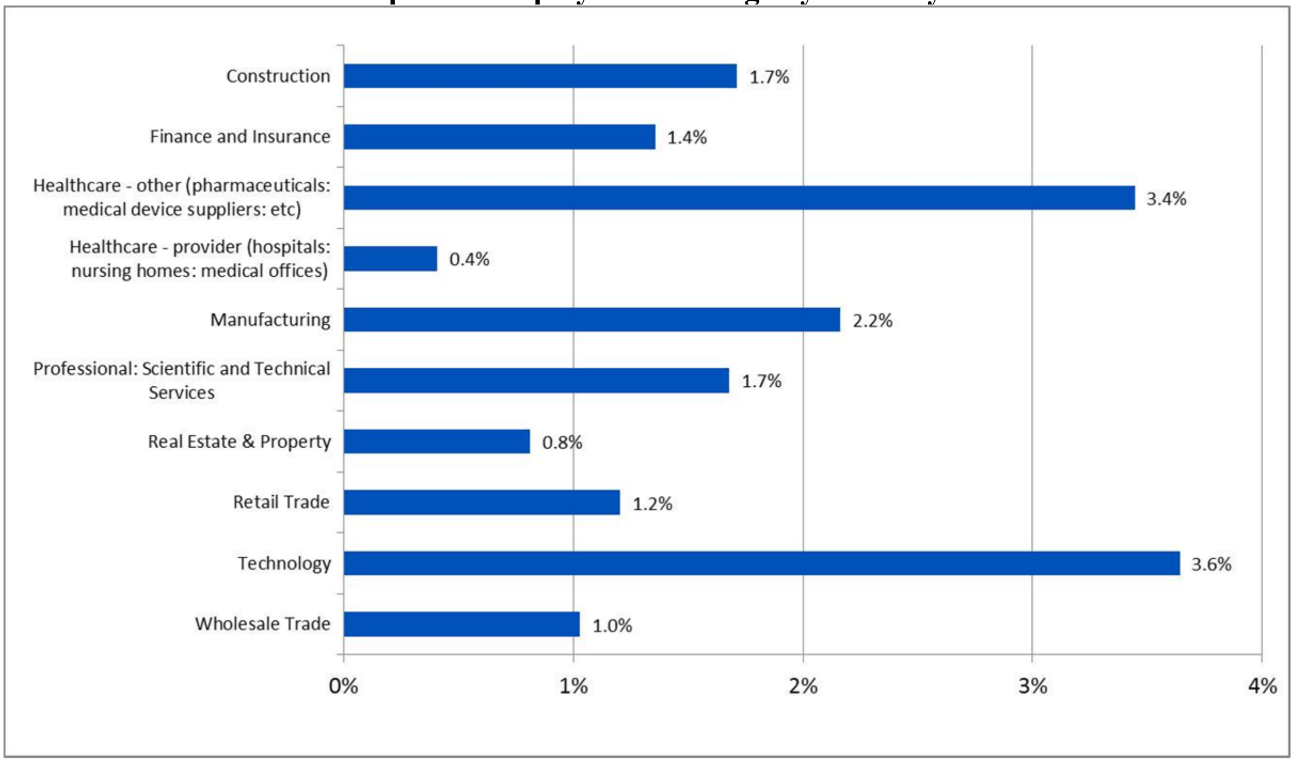
4Q11	1Q12
Domestic economic conditions	Domestic economic conditions
Regulatory requirements/changes	Regulatory requirements/changes
Employee and benefits costs	Employee and benefits costs
Stagnant/declining markets	Domestic competition
Domestic competition	Domestic political leadership
Domestic political leadership	Stagnant/declining markets
Materials/supplies/equipment costs	Developing new products/services/markets
Developing new products/services/markets	Materials/supplies/equipment costs
Global economic conditions	Availability of skilled personnel
Availability of skilled personnel	Global economic conditions

Industry, Region and Business Size Outlook

Optimism improves across most industries; Regional expectations vary

Respondents from all industries other than healthcare providers and retail trade were more optimistic about their own organizations than in 4Q 2011.   Healthcare other saw the largest increase in optimism and is the most optimistic this quarter. It is followed by the technology, finance and insurance, and manufacturing industries. Healthcare providers replace real estate as the most pessimistic respondents. Technology, healthcare other and manufacturing expect to do the most hiring and no industry plans to reduce staffing.

Expected Employment Change by Industry



Regionally the Midwest continued to have the highest level of optimism at 60%. Optimism for all regions exceeded 50%. The Northeast showed the largest improvement with 53% of respondents expressing optimism up from 37% last quarter. Fifty-three percent of respondents from the South (up from 44% last quarter) and 55% of respondents from the West (up from 42% last quarter) were also optimistic.

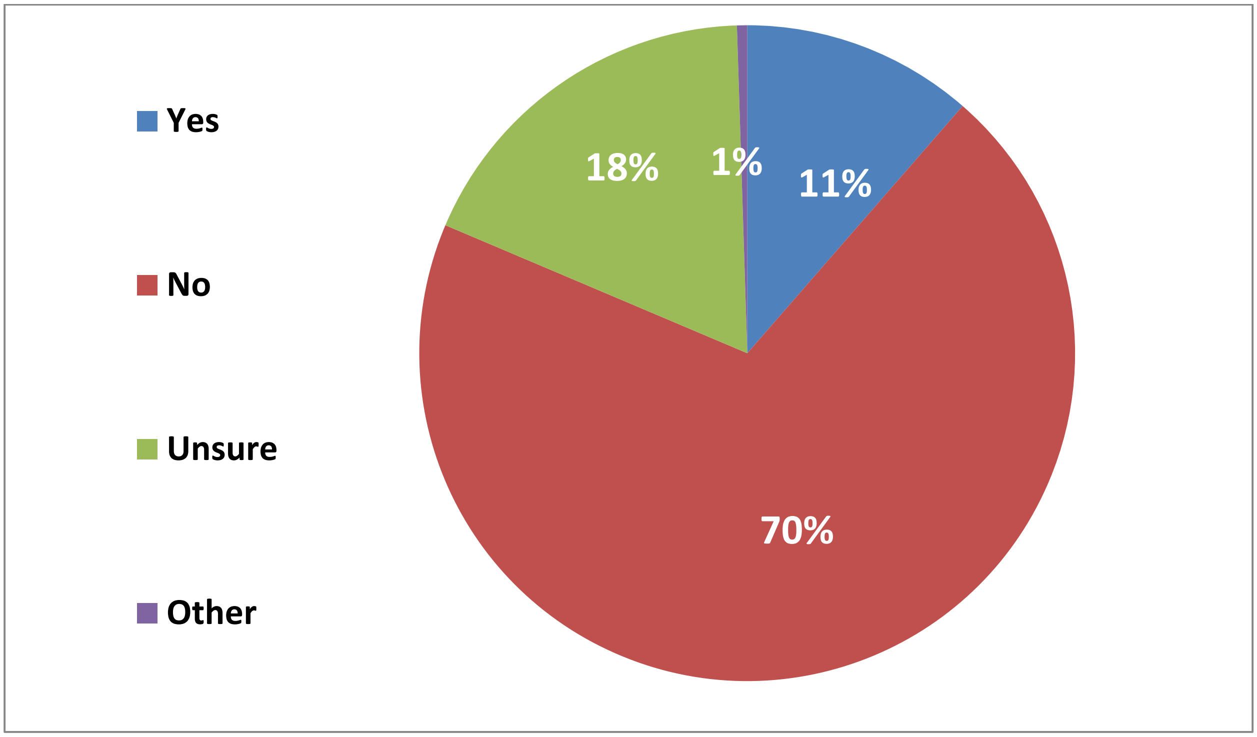
While large businesses remain more likely to expand than small businesses, expectations for expansion for businesses with over $1 billion in revenue dropped from 69% to 65%. At the same time the percent of businesses in the $100 million to < $1 billion range that expect to expand increased from 62% to 66% and percent of businesses in the $10 million to <$100 million range that expect to expand increased from 56% to 60%. The percent of respondents in the smallest category (<$10 million) that expect expansion remained stable at 55%.

Monetary and Fiscal Policy

Respondents don't support quantitative easing

This quarter's survey within a survey focused on monetary and fiscal policy. When asked to whether the Fed should initiate another round of quantitative easing, 70% said "No". Only 11% support another round of quantitative easing and 18% are unsure.

More Quantitative Easing?



When asked if they thought either repeal of the sequestration budget cuts or extension of the "Bush era" tax cuts would impact their optimism, respondents were divided. Forty-three percent felt that the repeal of the sequestration cuts would decrease optimism while 21% felt it would increase their optimism and 36% said it would do neither. For the extension of the "Bush era" tax cuts, 64% said it would increase their optimism while only 18% said it would decrease it and another 18% said it would do neither. Respondents were in strong agreement that there was little likelihood of any meaningful economic policy action coming out of Washington in the current highly-charged political environment. Eighty-nine percent said there was less than a 25% chance of that. And only slightly more than a quarter (27%) of respondents think that the environment will change for the better following the election

Survey Background

The survey was conducted of AICPA Business & Industry members between February 15, 2012 and March 1, 2012 and had 1358 qualified respondents. Forty-nine percent of respondents were CFOs, 21% were Controllers, 11% were CEOs or Presidents, 8% were VPs, 2% were CAOs, CAEs, CIOs, 3% were COOs and the remainder were Directors or Other. Sixty-nine percent of respondents came from privately owned entities, 15% from publicly listed companies, 14% from not-for-profits and 1% from other. Eleven percent came from organizations with annual revenues of 1 billion or more, 22% from organizations with $100 million to under $1 billion in annual revenues, 45% from organizations with $10 million to $100 million and 22% from organizations with under $10 million in revenues.