



# AICPA Business & Industry U.S. Economic Outlook Survey 1Q 2013



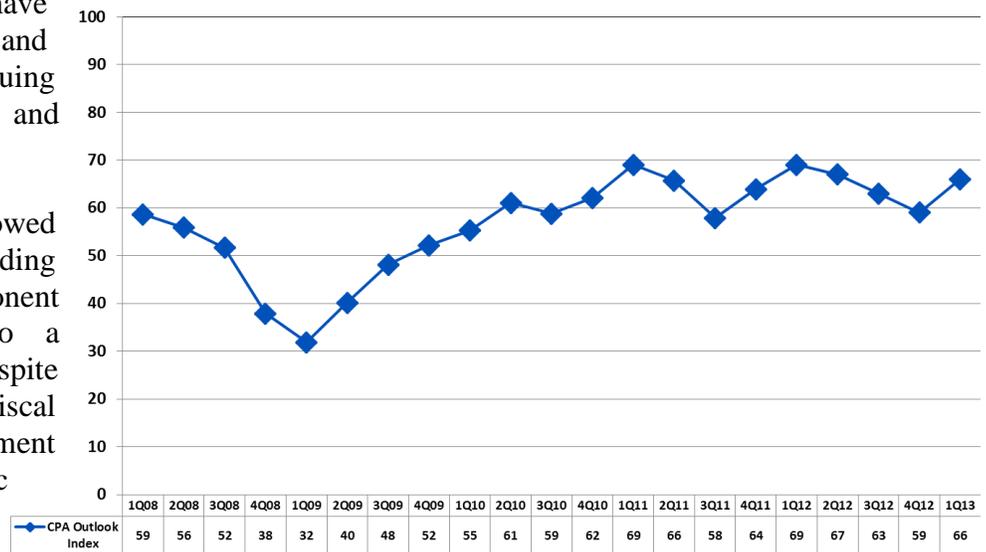
## The CPA Outlook Index

The CPA Outlook Index (CPAOI) 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.

### CPA Outlook Index - ↑ 07

The CPA Outlook Index (CPAOI) improved to a reading of 66 for the first quarter of 2013, an improvement of 7 points from the fourth quarter of 2012, but falling short of the first quarter 2012 reading of 69 which was also the reading at Q1 2011. While this is the fourth consecutive year of Q1 improvements over the prior fourth quarter, these first quarter surges have not been sustained during 2011 and 2012 in the face of continuing challenges in the economic and political environment.

All components of the index showed improvement over Q4 2012, including the US Economic Optimism component which recovered 14 points to a “neutral” reading of 50 despite continued concerns about current fiscal policy issues and soft employment accompanying the slow economic recovery.



Component	1Q12	2Q12	3Q12	4Q12	1Q13	ΔQ to Q	ΔY to Y
<b>U.S. Economic Optimism</b>	61	54	41	36	50	↑ 14	↓ 11
<b>Organization Optimism</b>	72	70	64	61	67	↑ 06	↓ 05
<b>Expansion Plans</b>	74	72	69	64	70	↑ 06	↓ 04
<b>Revenue</b>	76	74	72	68	72	↑ 04	↓ 04
<b>Profits</b>	69	69	66	60	65	↑ 05	↓ 04
<b>Employment</b>	64	62	59	55	61	↑ 06	↓ 03
<b>IT Spending</b>	75	74	72	69	74	↑ 05	↓ 01
<b>Other Capital Spending</b>	67	67	64	61	66	↑ 05	↓ 01
<b>Training &amp; Development</b>	66	65	62	59	65	↑ 06	↓ 01
<b>Total CPAOI</b>	69	67	63	59	66	↑ 07	↓ 03

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## 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%].

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# Outlook for the US Economy and Organizations

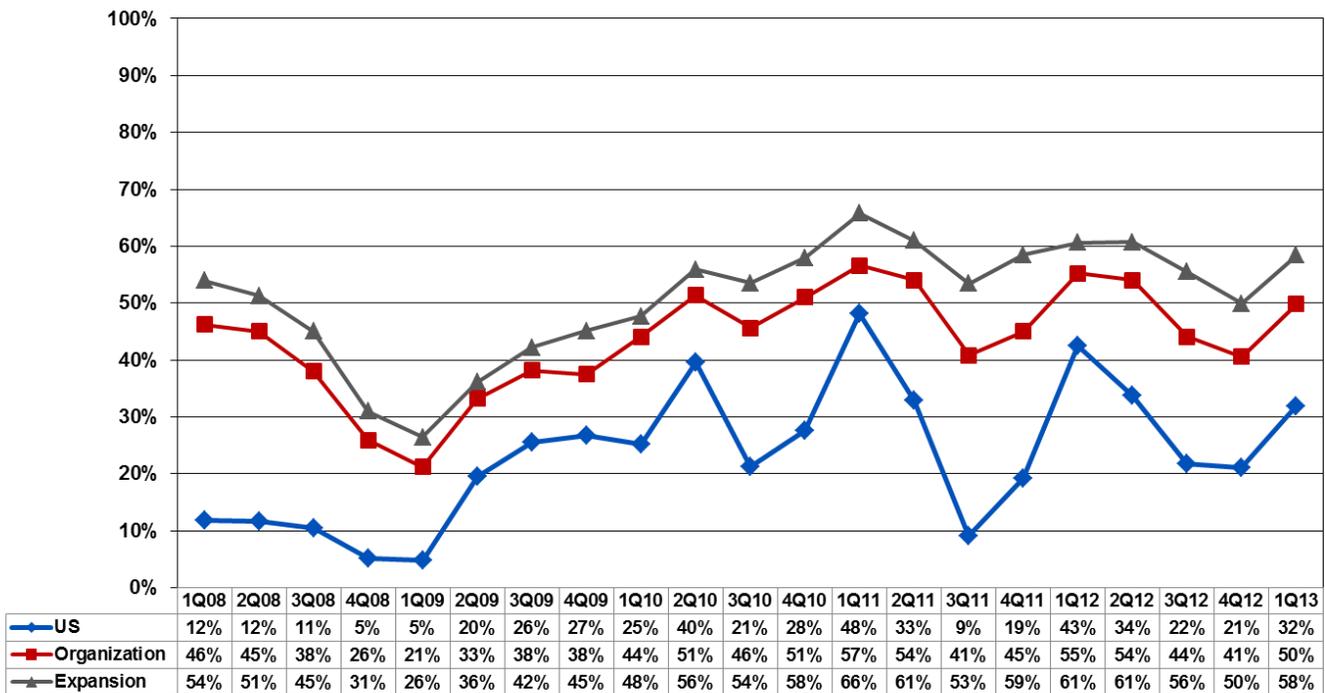
*Business optimism and expansion plans improve on somewhat less pessimistic view of economy*

As concern about the fiscal cliff mounted at the end of 2012, the number of respondents who were pessimistic about the US economy rose to 49% in Q4 2012, outnumbering optimists by more than 2 to one, and adversely impacting perceptions about business prospects and expansion plans.

While many expressed continuing concerns this quarter about fiscal policy issues and lack of leadership in Washington, the high degree of pessimism has abated to a certain extent. The number of respondents who are optimistic about the US economy continues to be low at 32%. However, the number of pessimists has declined to 31%, resulting in a more balanced, if not enthusiastic, take on the economy.

More importantly, respondents' views about the prospects and expansion plans for their own companies have recovered somewhat from weak levels of the second half of 2012. In the first quarter, 50% of respondents are now saying they are optimistic about their own businesses, up from only 41% at Q4 2012, and 58% are planning to expand over the coming year, up from only 50% looking to expand at Q4.

## Outlook for the US Economy, Organizations & Expansion



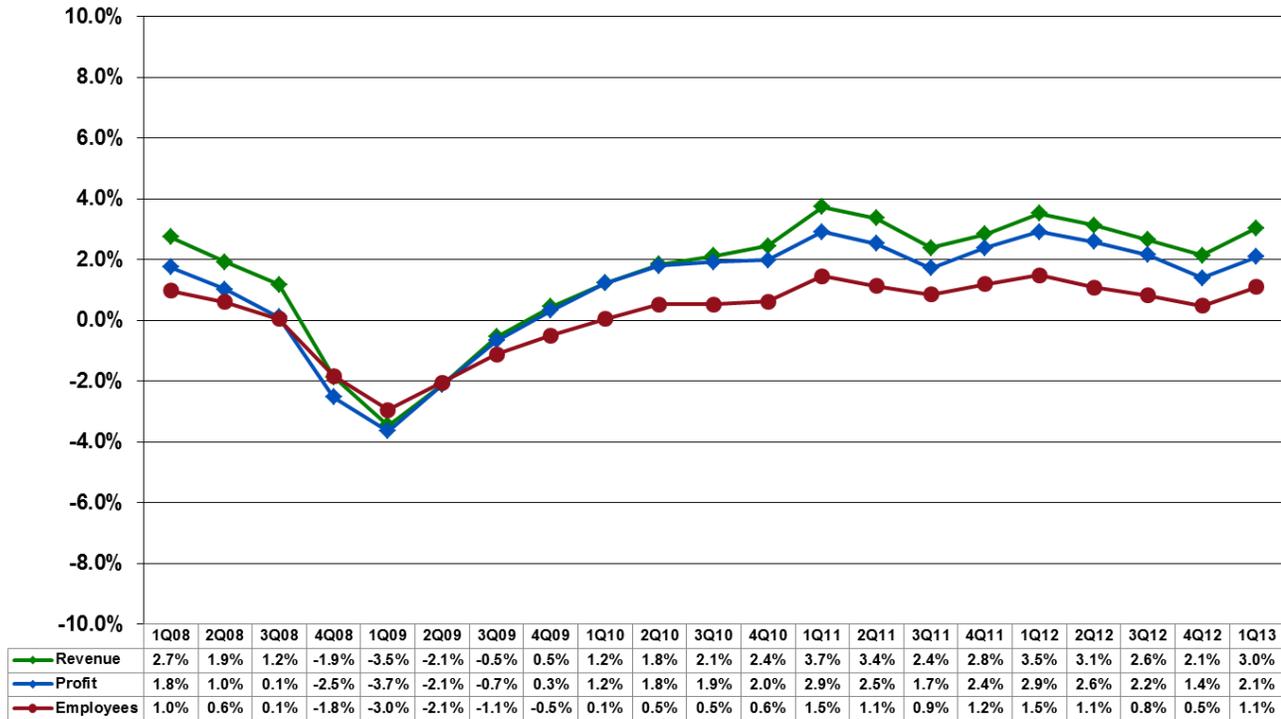
Concerns about inflation remained essentially unchanged this quarter – 36% of CPA respondents are concerned about the prospects for inflation over the next six months, slightly up from 31% in Q4, while only 6% were concerned about deflation. Respondents who were concerned about inflation were most likely to identify raw material costs as the primary concern followed by labor costs. A number of respondents commented about increasing healthcare costs as a concern, and the projected increase in healthcare costs continues to be greater than a 6% rate.

# Key Performance Indicators

*Expectations for revenue, profit and staffing growth all rebound from 2012 declines*

After declining through 2012 to levels in the fourth quarter that we had not seen since the early recovery quarters of 2010, expectations for increases in revenues, profits and headcounts rebounded in the first quarter of 2013. Revenues are currently expected to increase at a 3.0% rate, profits at 2.1% and headcounts at 1.1%.

## Expectations for Revenue, Profits and Staffing



Respondents' expectations for prices continue essentially unchanged. Prices paid are expected to increase by 2.0% over the next twelve months while prices charged are only anticipated to increase by 1.3%. Expectations for salary increases are slightly higher this quarter, increasing from 1.9% in Q4 to 2.1%. Expectations for healthcare cost increases were also stable Q to Q at 6.3%.

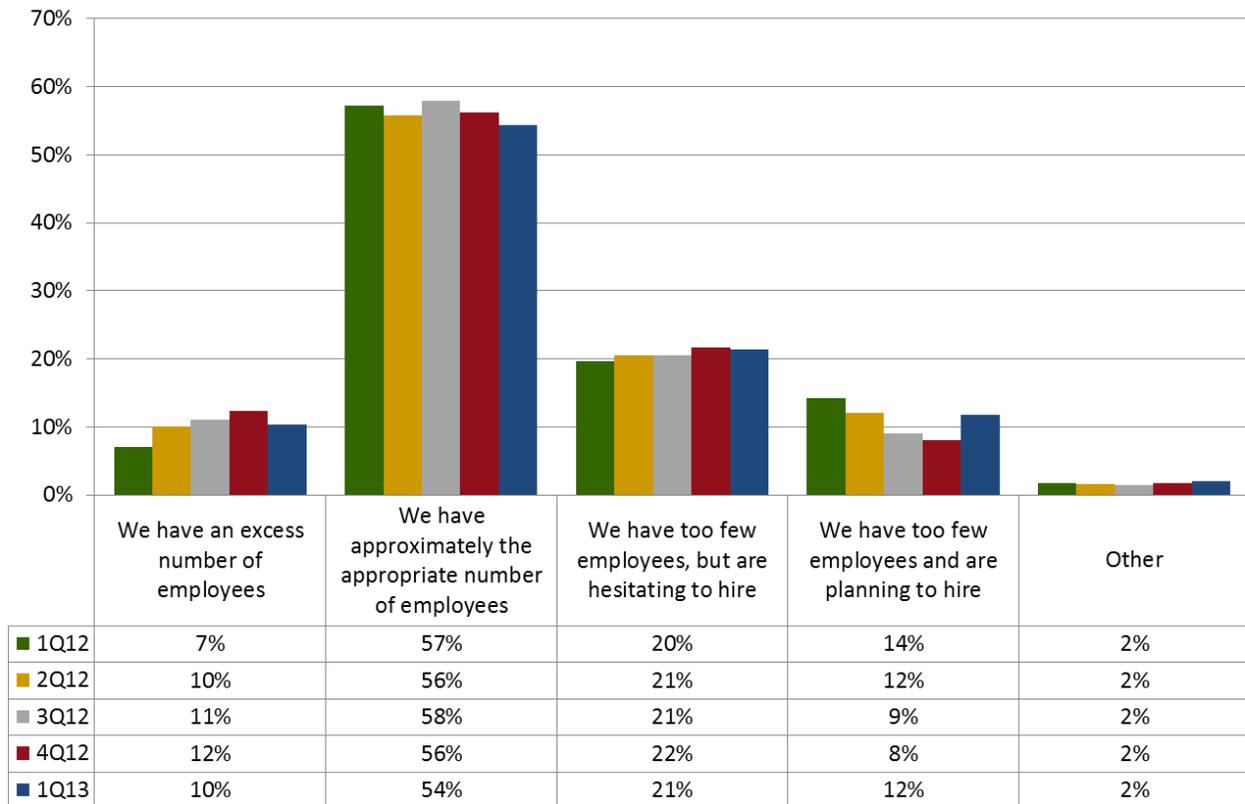
Plans for increased spending have also rebounded from Q4 2012 levels. IT spending is expected to increase 2.7% over the course of the next twelve months, which is up from 2.1% last quarter. Spending on other capital also bounced back from 1.3% to 1.9%. Training spend followed suit, now projected to increase at a 1.3% rate, up from only 0.7% projected at Q4 2012.

## Hiring Plans

*Hiring plans show slight improvement but reluctance to hire persists*

Slightly more than half of all companies (54%) continue to say they have the right number of employees and only 10% say they have too many, slightly improved from the Q4 level of 12%. Consistent with the pattern in 2012 a third (33%) say they have too few employees. Of those that need employees 12% say they are planning to hire, up from only 8% in Q4 2012. However, the remaining 21% say that while they have too few employees, they are hesitating to hire.

### Staffing Relative to Needs



## Industry, Region and Business Size Outlook

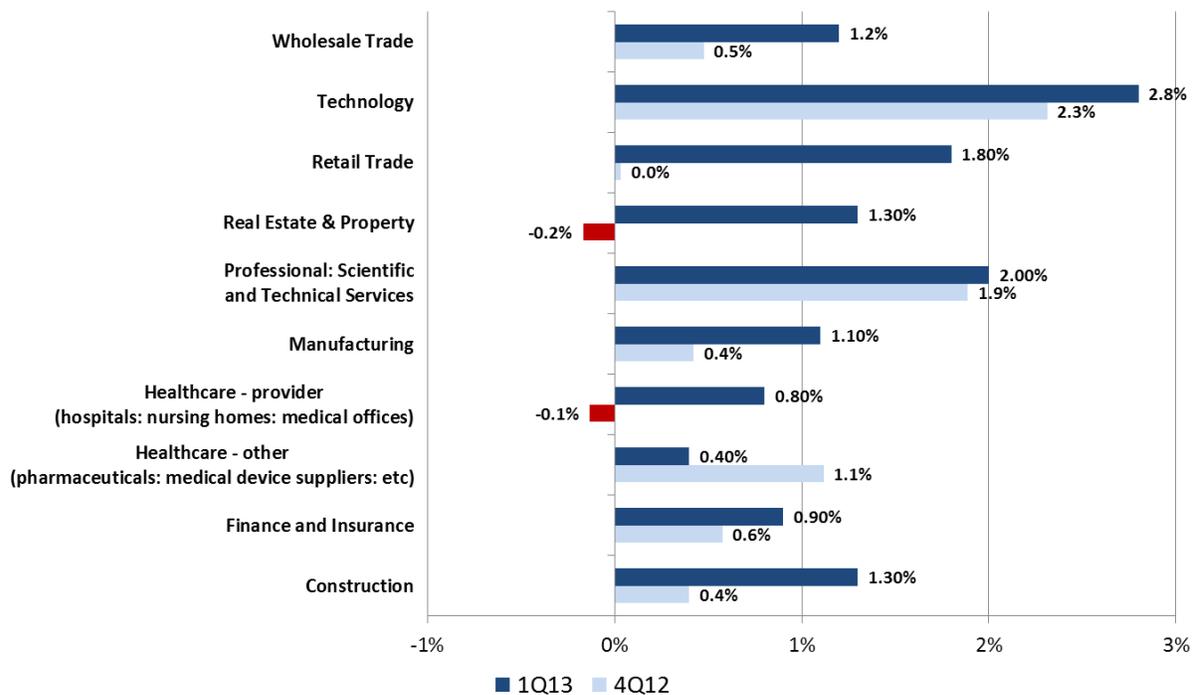
*Optimism and expansion plans up across all sectors and regions, hiring expected to be stronger in large companies*

Optimism about prospects for respondents' own businesses improved across all industry sectors with the exception of healthcare-other. Real estate and professional services were the biggest movers improving from 40% to 59% expressing optimism about their businesses. They were followed closely by tech sector, moving from 40% to 56%, and manufacturers improving from 39% to 55%. While optimism also improved in both the construction industry and in retail trade, the number of respondents who are optimistic about their prospects in these important sectors is still slightly below 50%. Healthcare providers continue to be the least optimistic with less than 40% optimistic about their prospects.

The increase in optimism was also consistent among the various regions of the country. Just over half of businesses in the West and Midwest regions, and just under half of those in the South and Northeast regions are optimistic about their prospects in Q1 2013.

Hiring expectations also improved across all industries other than healthcare-other, including real estate and healthcare providers which were projecting staff reductions in Q4 2012. Hiring is projected to be the most robust in the technology sector which is expecting to increase headcount at a 2.8% rate, significantly higher than the overall average of 1.1%. Professional services hiring is expected to increase at a rate of 2.0%, and retail showed marked improvement over Q4 2012, now projecting a 1.8% increase in headcount over the next 12 months. The real estate and property sector moved from a slightly negative projection at Q4 to a positive 1.3%, and the construction industry is also expecting to increase employment by 1.3%.

### Expected Employment Change by Industry

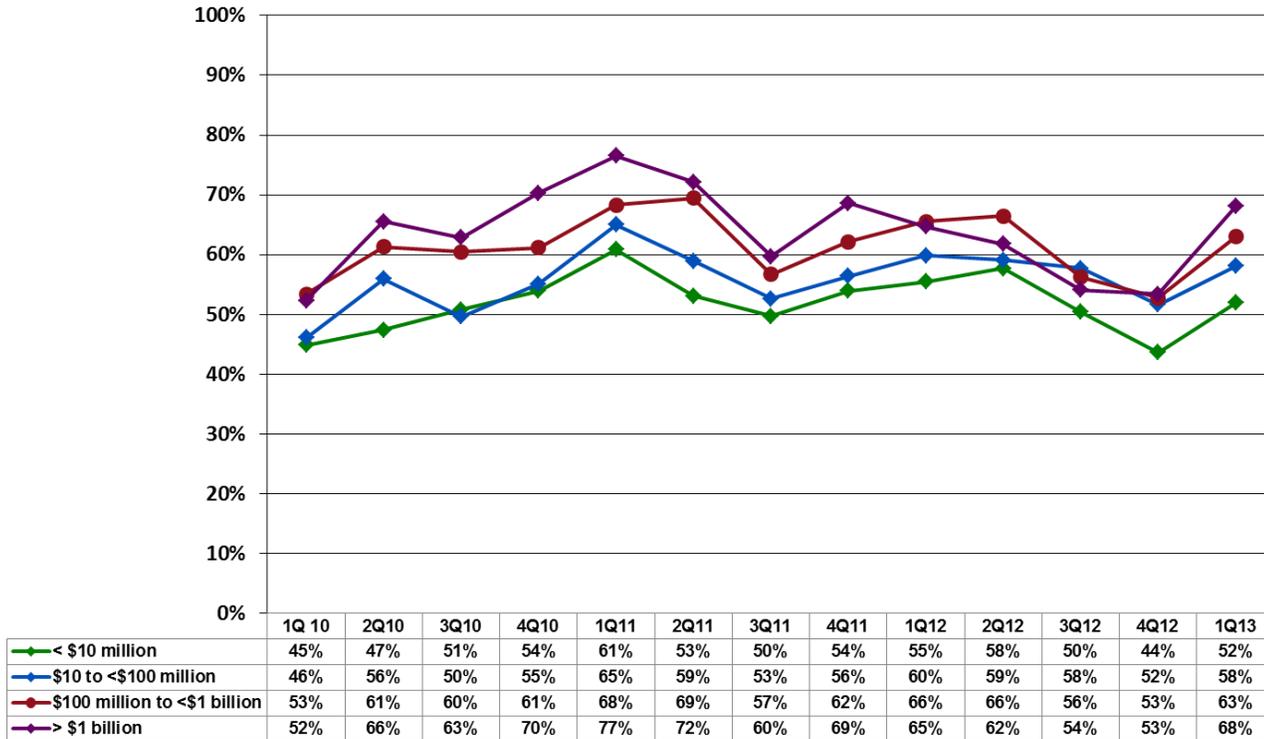


From early 2010 through 2011 the largest of companies - those with revenues in excess of \$1 billion, seemed to be leading the recovery, outpacing smaller companies in terms of the percentage of respondents reporting that they expected their businesses to expand during the ensuing twelve months. In the first quarter of 2012, there was a break in this trend and we saw a steady decline in the percentage of large companies with expansion plans through each quarter in 2012. In the fourth quarter of 2012 there was no appreciable difference between the three larger size categories of companies, each with only slightly more than half of their respondents expecting to expand their businesses.

In the first quarter, while greater percentages of companies in all size categories are expecting their business to expand, the large company categories are showing the most significant improvement. The percentage of

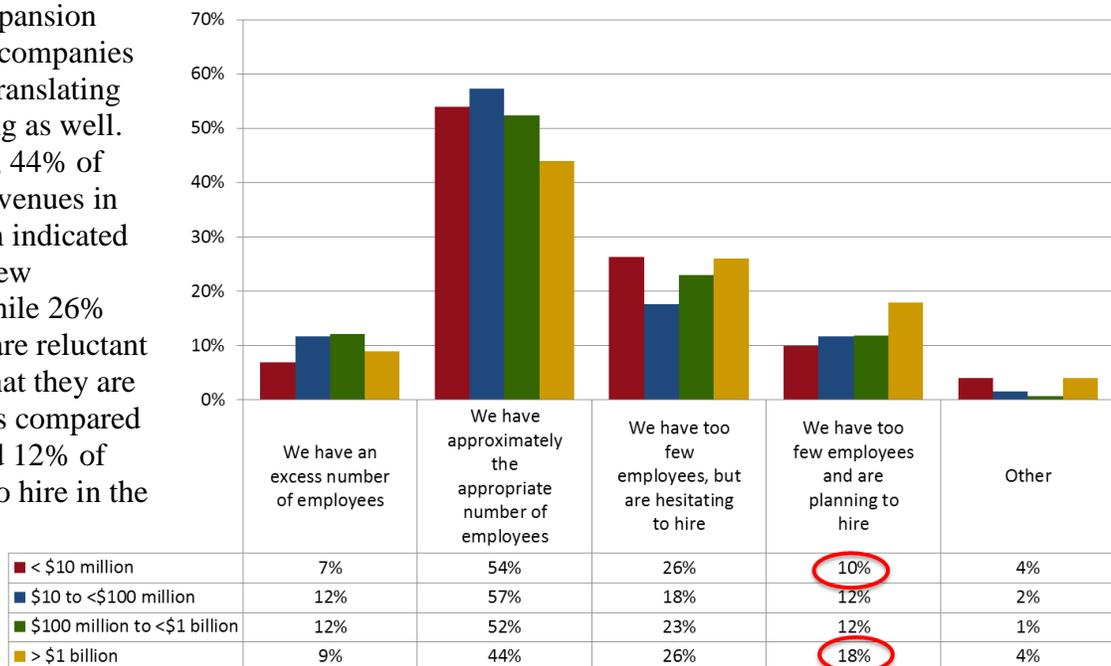
companies in the \$100 million to \$1billion category increased from 53% in Q4 to 63% in Q1, and the percentage of companies with revenues in excess of \$1 billion increased from 53% to 68%.

### Expansion Plans by Business Size



### Hiring plans by company size

These plans for expansion among the largest companies also appear to be translating into plans for hiring as well. In the first quarter, 44% of companies with revenues in excess of \$1billion indicated that they had too few employees and, while 26% have too few and are reluctant to hire, 18% say that they are planning to hire, as compared with only 10% and 12% of companies ready to hire in the smaller size categories.

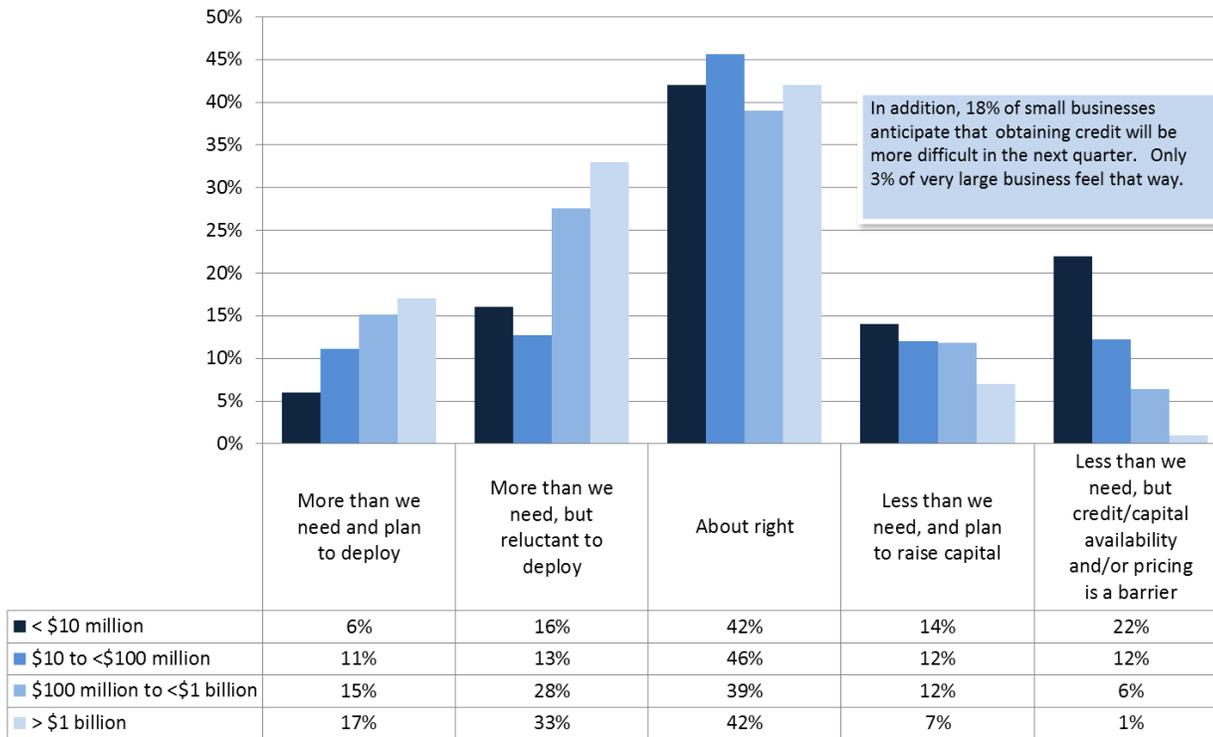


## Liquidity

*Overall liquidity remains strong for most organizations, but small businesses are struggling more than average, and reluctance to deploy excess capital persists, especially among large companies*

The majority of the respondents' organizations continue to have at least as much cash with only 24% needing to raise capital. On an overall basis, 32% percent have more than they need and 43% have about the right amount. Only 11% plan to deploy excess liquidity, while 21% continue to be reluctant to deploy their excess. However the picture changes somewhat depending on the size of the organization. Only 22% of small businesses (revenues under \$10 million) have excess capital while 36% expect to need to raise capital including 22% who believe availability and/or pricing will be a barrier. However for very large businesses the picture is much rosier – 50% of companies with revenues in excess of \$1 billion have excess capital, while only 7% expect to need to raise it with only 1% expecting availability and/or pricing will be a problem. Companies in the next size category are similarly positioned with 43% saying they have excess liquidity. Unfortunately, respondents from companies in both categories of larger companies are more reluctant to deploy their excess cash than their counterparts in smaller companies.

**Liquidity by Business Size**



Overall the majority of respondents (56%) continue to believe that obtaining credit would not be more or less difficult than in previous quarter. The percentage who expect it to be more difficult declined from 18% to 12% and here again small businesses are more concerned as 18% felt it would be more difficult while only 3% of very large businesses felt that way.

## Top Challenges

*Slight shifts in the challenges facing business in 2013*

This quarter, domestic economic conditions continued to top the list of challenges facing businesses, followed by regulatory requirements/changes. Employee and benefits costs moved ahead of domestic political leadership and domestic competition moved ahead of stagnant/declining markets to round out the top five. The challenges rounding out the top ten remained the same although several swapped positions – availability of skilled personnel and developing new products/services/markets both moved up a notch into the 7 and 8 slots, while global economic conditions slipped from 7<sup>th</sup> to 9<sup>th</sup> in the ranking. Materials/supplies/equipment costs repeated in the tenth spot.

2Q12	3Q12	4Q12	1Q13
Domestic economic conditions	Domestic economic conditions	Domestic economic conditions	Domestic economic conditions
Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes
Employee and benefits costs	Domestic political leadership	Domestic political leadership	Employee and benefits costs
Domestic political leadership	Employee and benefits costs	Employee and benefits costs	Domestic political leadership
Domestic competition	Stagnant/declining markets	Stagnant/declining markets	Domestic competition
Stagnant/declining markets	Global economic conditions	Domestic competition	Stagnant/declining markets
Global economic conditions	Domestic competition	Global economic conditions	Availability of skilled personnel
Availability of skilled personnel	Availability of skilled personnel	Availability of skilled personnel	Developing new products/services/markets
Developing new products/services/markets	Materials/supplies/equipment costs	Developing new products/services/markets	Global economic conditions
Materials/supplies/equipment costs	Developing new products/services/markets	Materials/supplies/equipment costs	Materials/supplies/equipment costs

## Fiscal Options and Priorities for 2013

*Respondents favored letting sequestration budget cuts take place as scheduled*

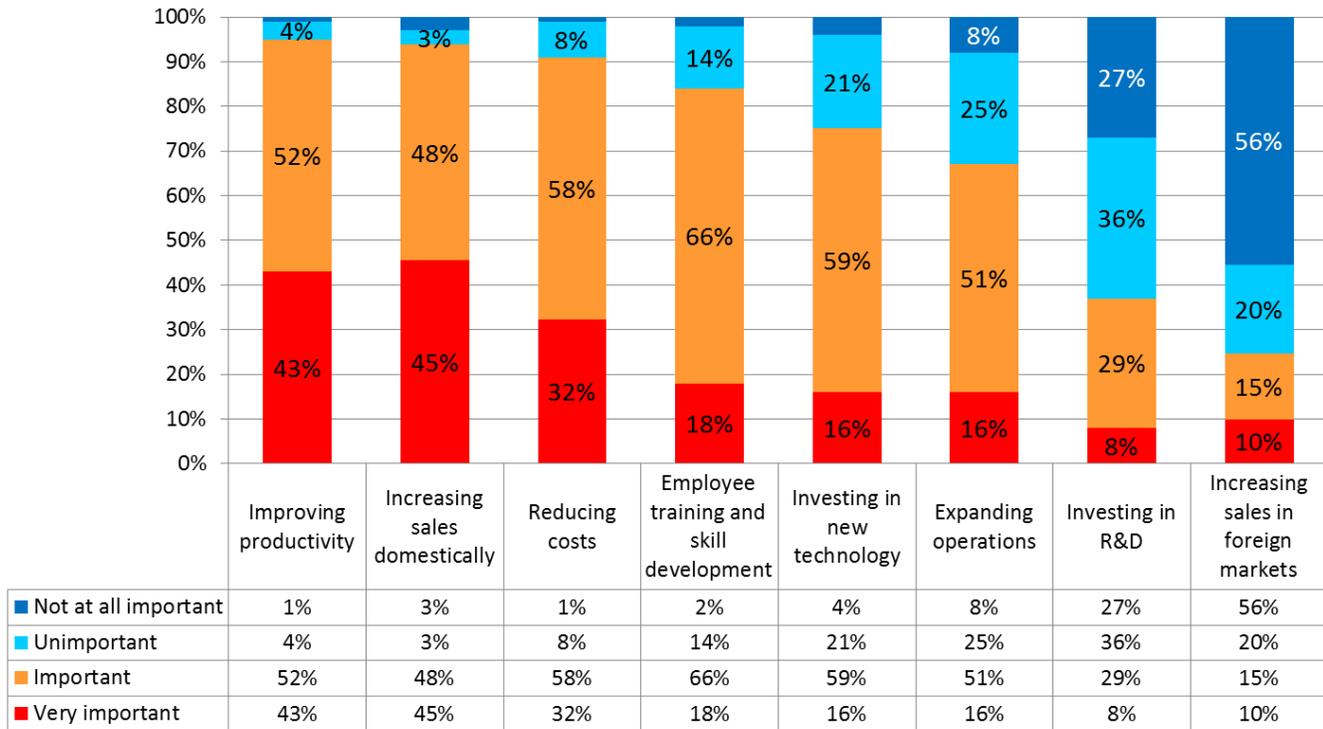
This quarter's survey within a survey focused on fiscal options and the importance of various initiatives for respondents' businesses in 2013.

Facing the sequestration budget deadline of March 1, 47% of survey respondents favored letting the sequestration budget cuts take place as scheduled. Only 15% were in favor of deferring the scheduled cuts until the economic growth and hiring picture improves. The remaining 38% indicated a preference for a stop-gap solution of tax increases and cuts to avert the potential impact of scheduled military and domestic cuts.

Only 11% of respondents expected significant impact to their businesses from the scheduled cuts. Another 29% expected moderate impact, while 60% expected either slight or minimal impact.

When asked to rate the importance of a select group of business initiatives for their companies in 2013, respondents improving productivity and increasing domestic sales topped the list. Cost reduction also continues to be a high priority, followed by investing in new technology and employee training and development. Increasing sales in foreign markets and investing in R&D are the lowest priority among respondents overall.

### Business Priorities in 2013



## Survey Background

The survey was conducted of AICPA Business & Industry members between February 13 and February 28, 2013 and had 1376 qualified respondents. Forty-seven percent of respondents were CFOs, 20% were Controllers, 12% were CEOs or Presidents, 9% were VPs, 3% were COOs; the remainder were Directors or other executives. Seventy-one percent of respondents came from privately owned entities, 14% from publicly listed companies, 13% from not-for-profits and 2% from other. Ten percent came from organizations with annual revenues of \$1 billion or more, 21% from organizations with \$100 million to under \$1 billion in annual revenues, 45% from organizations with \$10 million to \$100 million and 24% from organizations with under \$10 million in revenues (numbers may add to more than 100 due to rounding).