



AICPA

Business and Industry

Economic Outlook Survey

Detailed Survey Results — 1Q 2013

Survey Background

- **Conducted between February 13 and February 28, 2013**
- **Quarterly survey**
- **CPA decision makers (primarily CFOs, CEOs and Controllers)**
- **AICPA members in Business & Industry only**
- **1,431 total responses, 1,376 qualified responses**

Survey Highlights

■ CPA Outlook Index improves to 66, up 7 points from Q4, but still below Q1 2012 level

- Overall index up 7 points from 59 to 66; still 3 points lower than Q1 level of 69
- All index components show improvement
- US economy optimism index component recovers 14 points in spite of continuing concerns about political issues and employment

■ Organizational optimism improves markedly

- Half of all respondents are now optimistic about their own companies
- All sectors except healthcare-other showing gains in optimism

■ Key Performance Indicators all show slight improvement

- Revenues, profits, headcount and spending all show improvement

■ Hiring plans also show some improvement but reluctance remains

- A third of companies have too few employees; 12% have current plans to hire, which is up from 8% at Q4 2012 and 9%; however, the remaining 21% of companies with too few employees are reluctant to hire

CPA Outlook Index (CPAOI)

CPA Outlook Index

The CPA Outlook Index is a robust measure of sentiment about the U.S. 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.

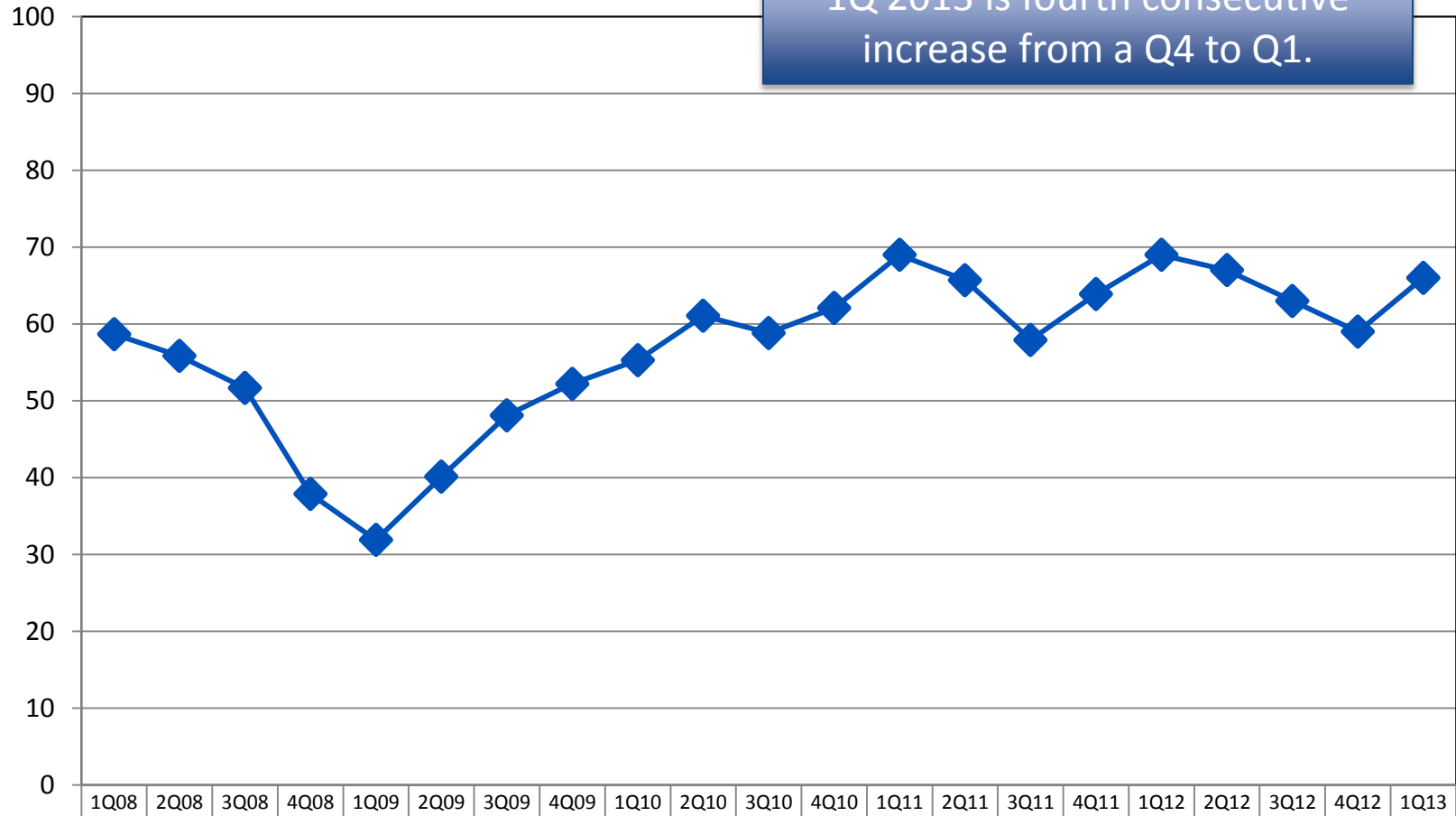
■ The CPA Outlook Index is the composite of the following nine indicators at equal weights:

- U.S. Economy Optimism - Respondent optimism about the U.S. economy
- Organization Optimism - Respondent optimism about prospects for their own organization
- Expansion Plans - Respondent expectations of whether their business will expand over the next 12 months
- Revenue - Expectations for increases or decreases in revenue over the next 12 months
- Profits - Expectations for increases or decreases in profits over the next 12 months
- Employment - Expectations for increases or decreases in 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

- ## ■ A reading above 50 indicates a generally positive outlook with increasing activity. A reading below 50 indicates a generally negative outlook with decreasing activity.

CPA Outlook Index (CPOAI)

1Q 2013 is fourth consecutive increase from a Q4 to Q1.



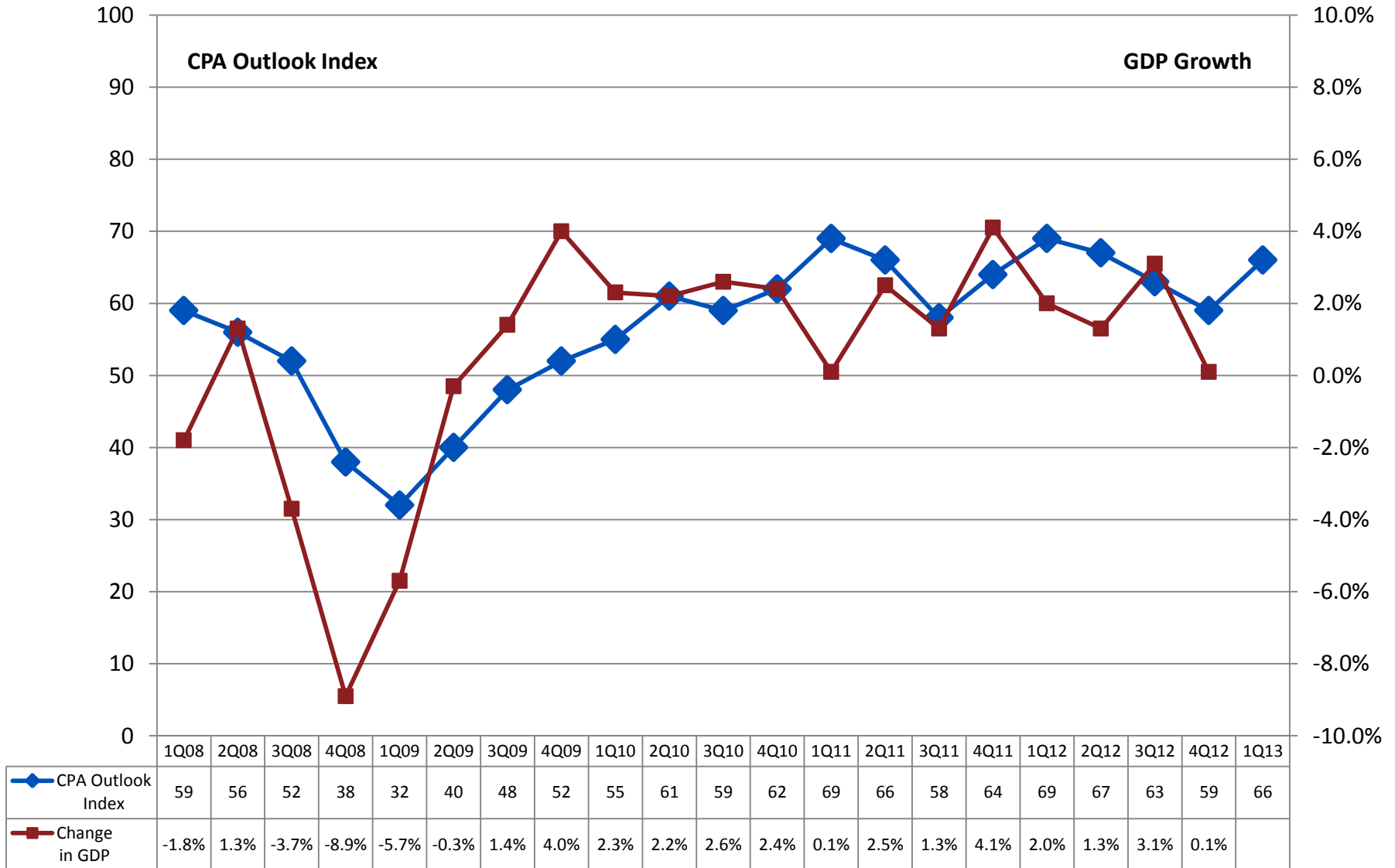
CPA Outlook Index

1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
59	56	52	38	32	40	48	52	55	61	59	62	69	66	58	64	69	67	63	59	66

CPA Outlook Index Component Indicators

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

CPA Outlook Index (CPAOI) vs GDP



U.S. & Organization Outlook

Outlook for the U.S. and Organizations

■ **Optimism for the U.S. Economy improved but remains low**

- Less than a third 32% of respondents were optimistic or very optimistic about the prospects for the economy, somewhat improved from 21% last quarter and 22% in 3Q12
- The number of pessimists has declined from 49% in Q4 2012 to 31% this quarter, creating a roughly even distribution of optimists, pessimists and those who are neutral
- Most frequently cited concerns focused on gridlock and lack of leadership, continued unemployment or low employment levels and national debt/deficit issues

■ **Organizational optimism rebounded strongly and expansion plans recovered to prior levels**

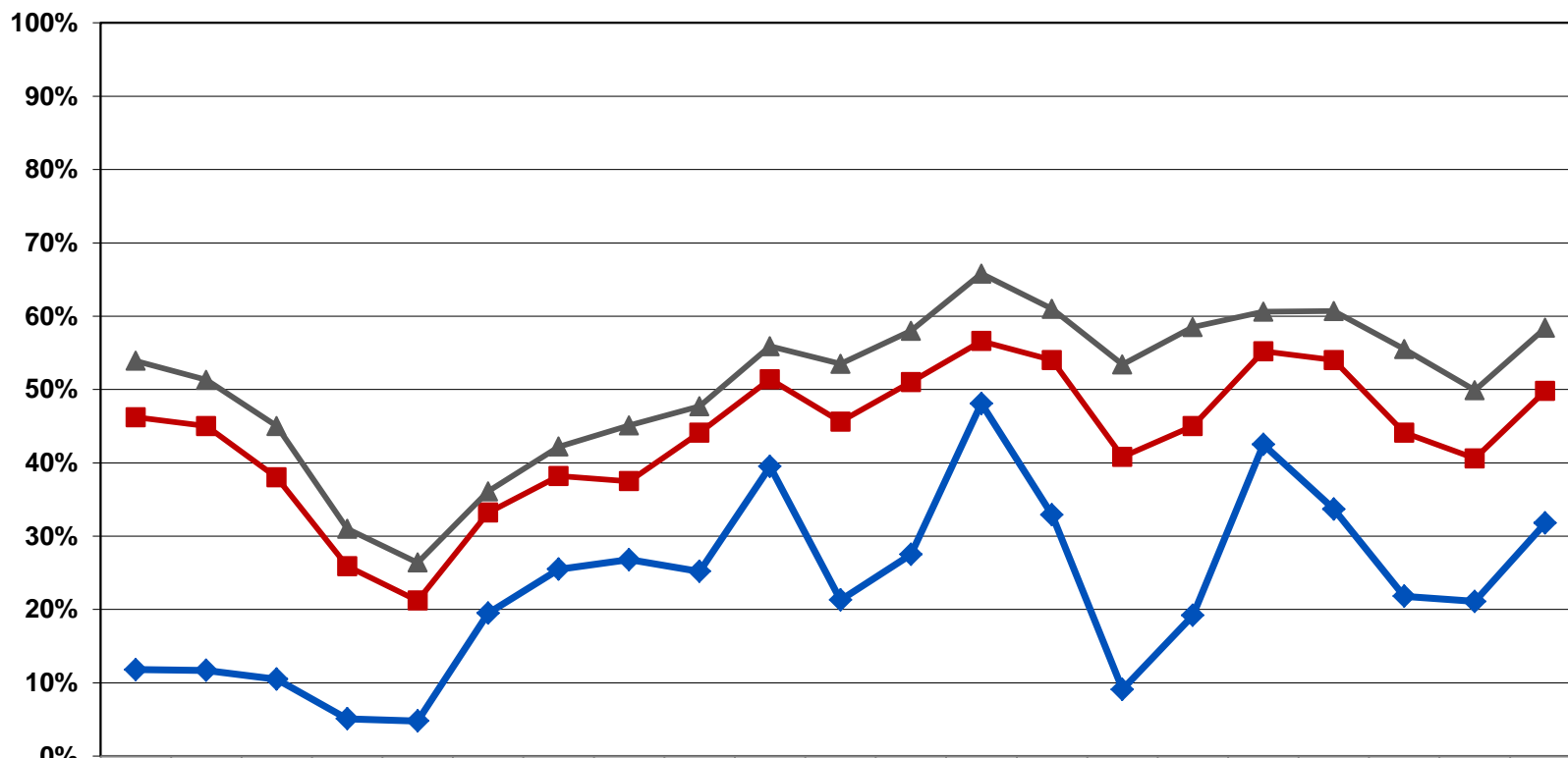
- Exactly half of respondents are now optimistic about their own companies prospects, up from 41% in Q4 2012
- Optimism increased across sectors with the exception of the healthcare-other group
- The number of companies expecting their business to expand increased to 58% after dropping to 50% last quarter which was the lowest expansion reading since 1Q 2010

■ **Inflation concerns remain low**

- Only 36% are concerned about inflation with raw material and labor costs remaining the top concerns of those respondents
- A number of respondents commented about healthcare costs, which are being projected to continue to increase at slightly above 6% per year

Optimism & Expansion

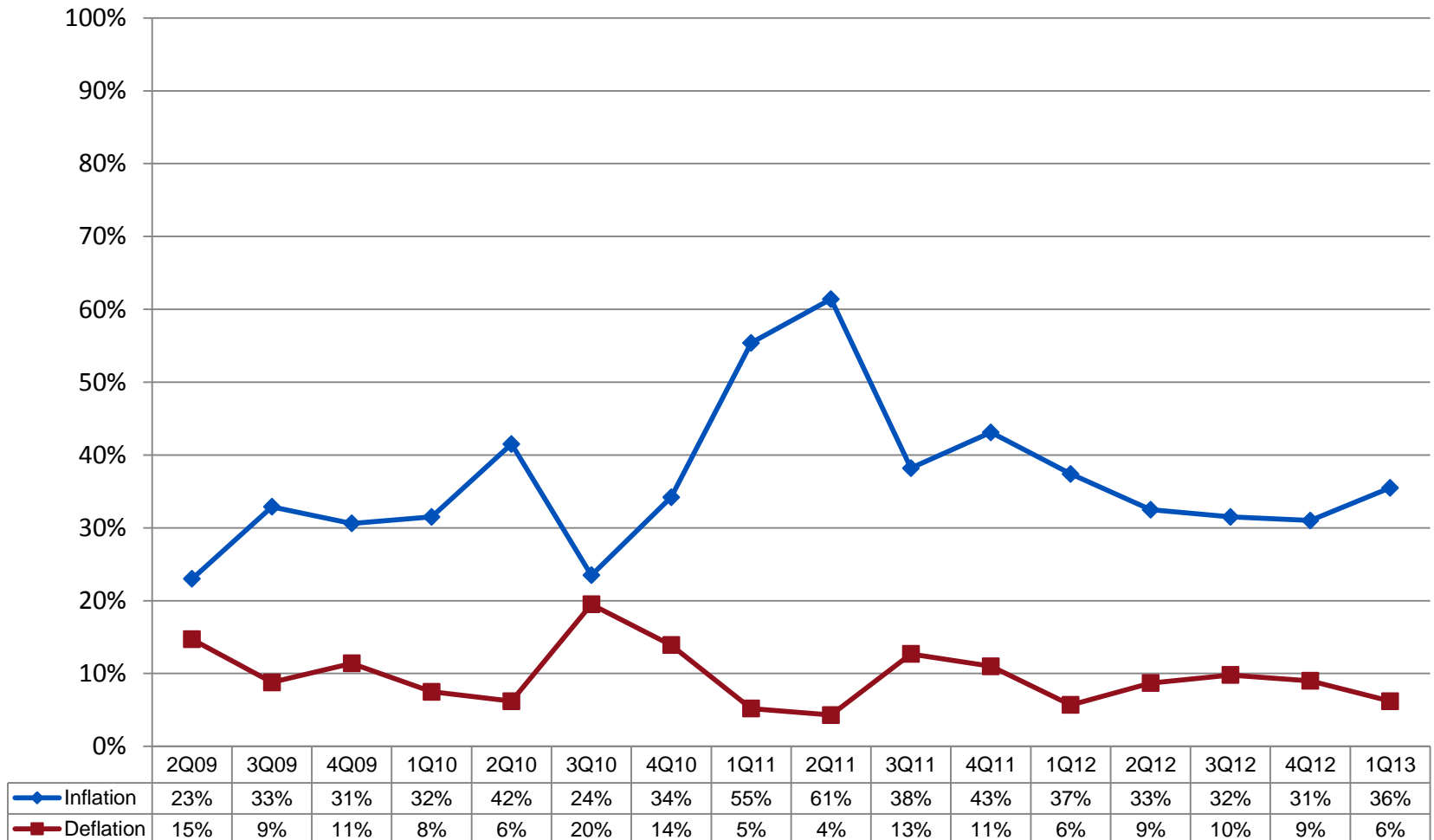
US, Organization, Expansion



	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
—◆— US	12%	12%	11%	5%	5%	20%	26%	27%	25%	40%	21%	28%	48%	33%	9%	19%	43%	34%	22%	21%	32%
—■— Organization	46%	45%	38%	26%	21%	33%	38%	38%	44%	51%	46%	51%	57%	54%	41%	45%	55%	54%	44%	41%	50%
—▲— Expansion	54%	51%	45%	31%	26%	36%	42%	45%	48%	56%	54%	58%	66%	61%	53%	59%	61%	61%	56%	50%	58%

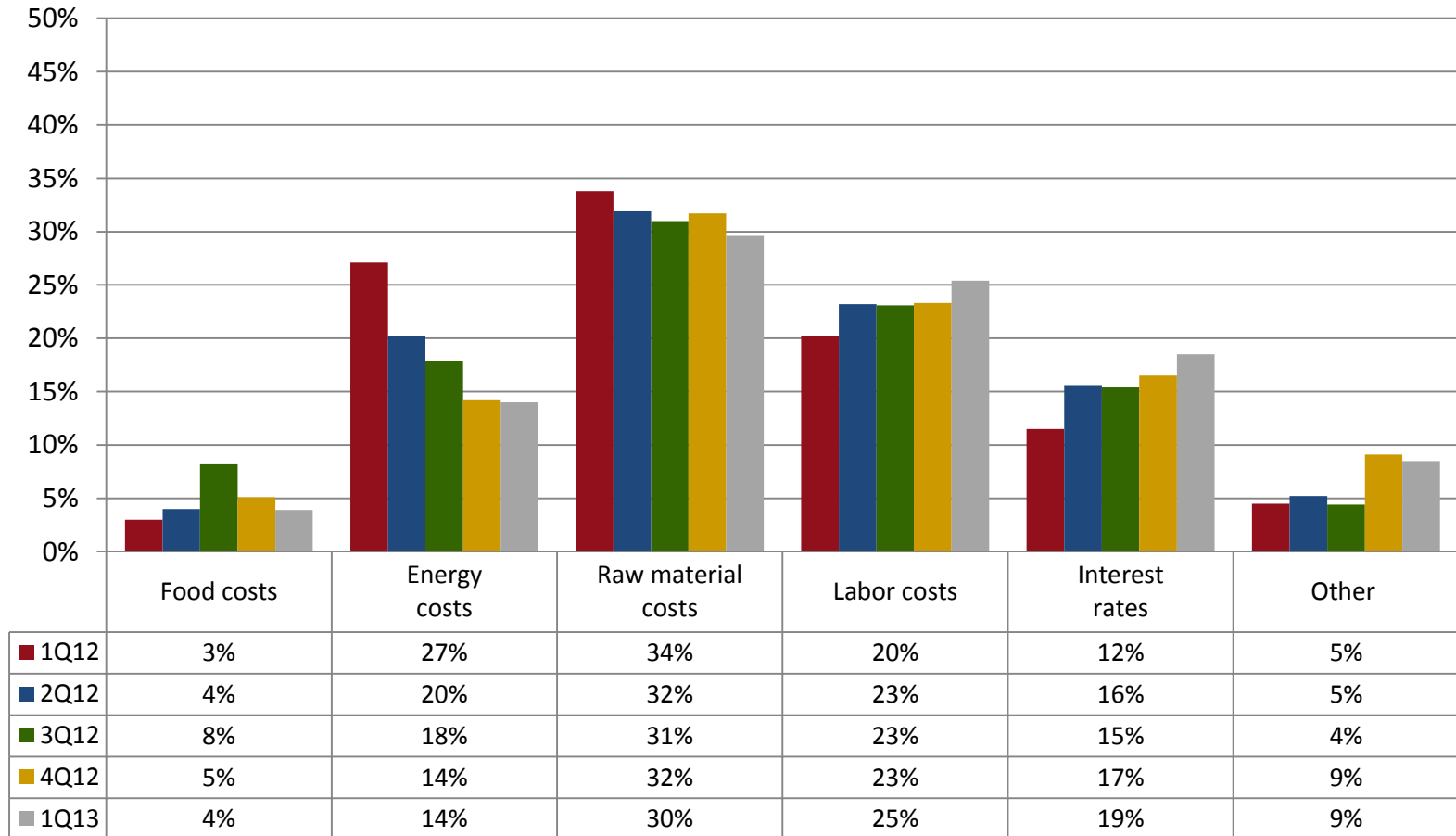
For your business, are you more concerned about inflation or deflation?

For your business, over the next 6 months, are you more concerned about the possibility of ...?



Inflationary Risks and Costs

Inflationary Factor Representing the Most Significant Risk to your Business



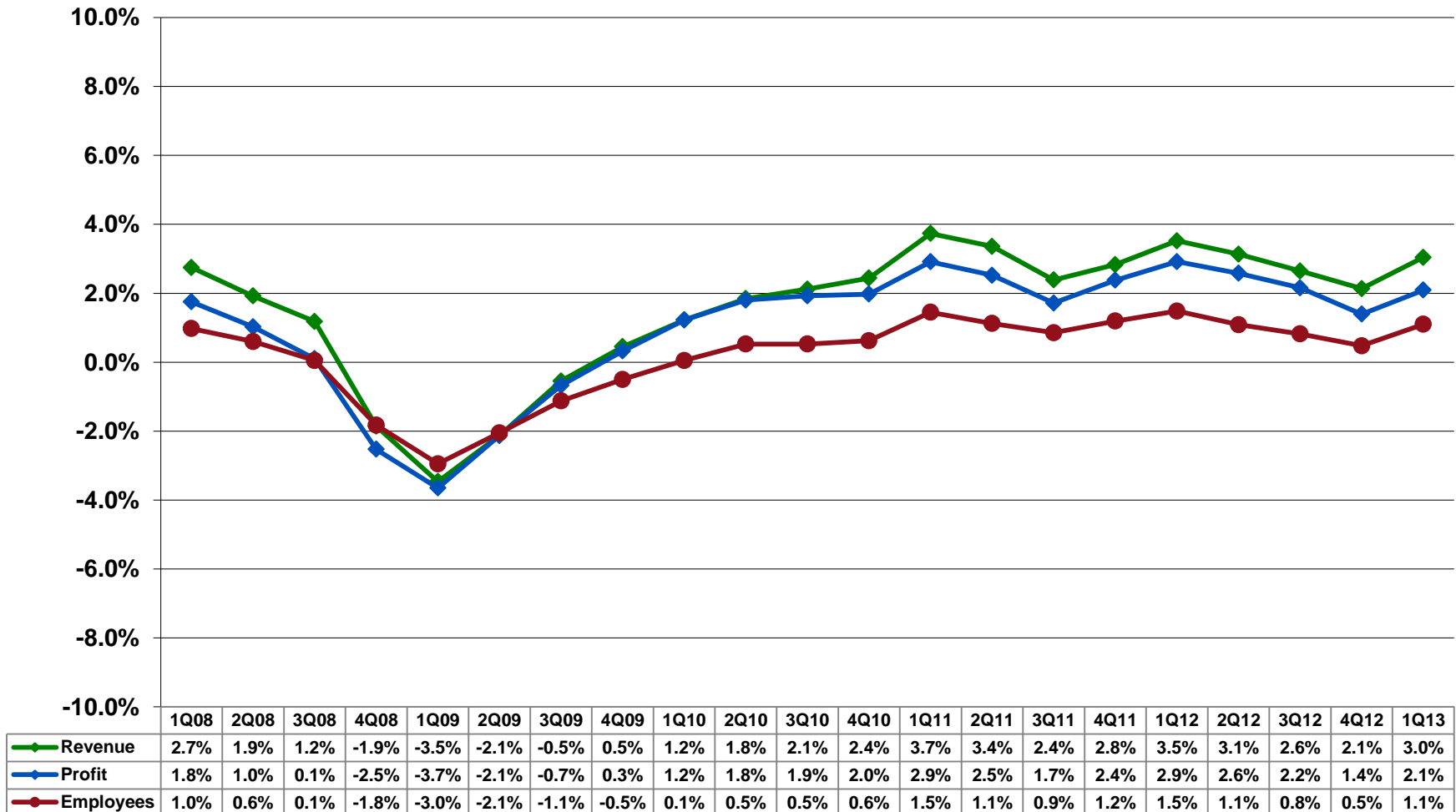
Key Performance Indicators

Key Performance Indicators

- **Outlook for revenue, profit and staff growth all improved slightly from Q4 2012**
 - Revenues expected to increase at 3% rate: profits at 2.1%
 - Headcounts expected to increase by 1.1% over the next year as compared with a projected increase of only .5% in the Q4 2012 survey
- **Expectations for pricing and cost increases are unchanged again this quarter**
 - In spite of concerns expressed about rising healthcare costs, respondents expectations for healthcare cost increases declined a tenth of a point to 6.3% from the Q4 reading
- **Spending plans across all categories rebound from Q4 levels**
 - Increased spending for IT continues to be the strongest category of spending and increased from 2.1% in Q4 2012 to 2.7% in Q1 2013
 - Other capital spending rebounded from 1.3% to 1.9%
 - Training spending rebounded from .7% to 1.3%
 - Marketing spending rebounded from 1.0% to 1.5%
 - R&D spending is scheduled to increase the least at (0.9%)

Key Performance Indicators Expected Growth in Revenue, Profits and Number of Employees

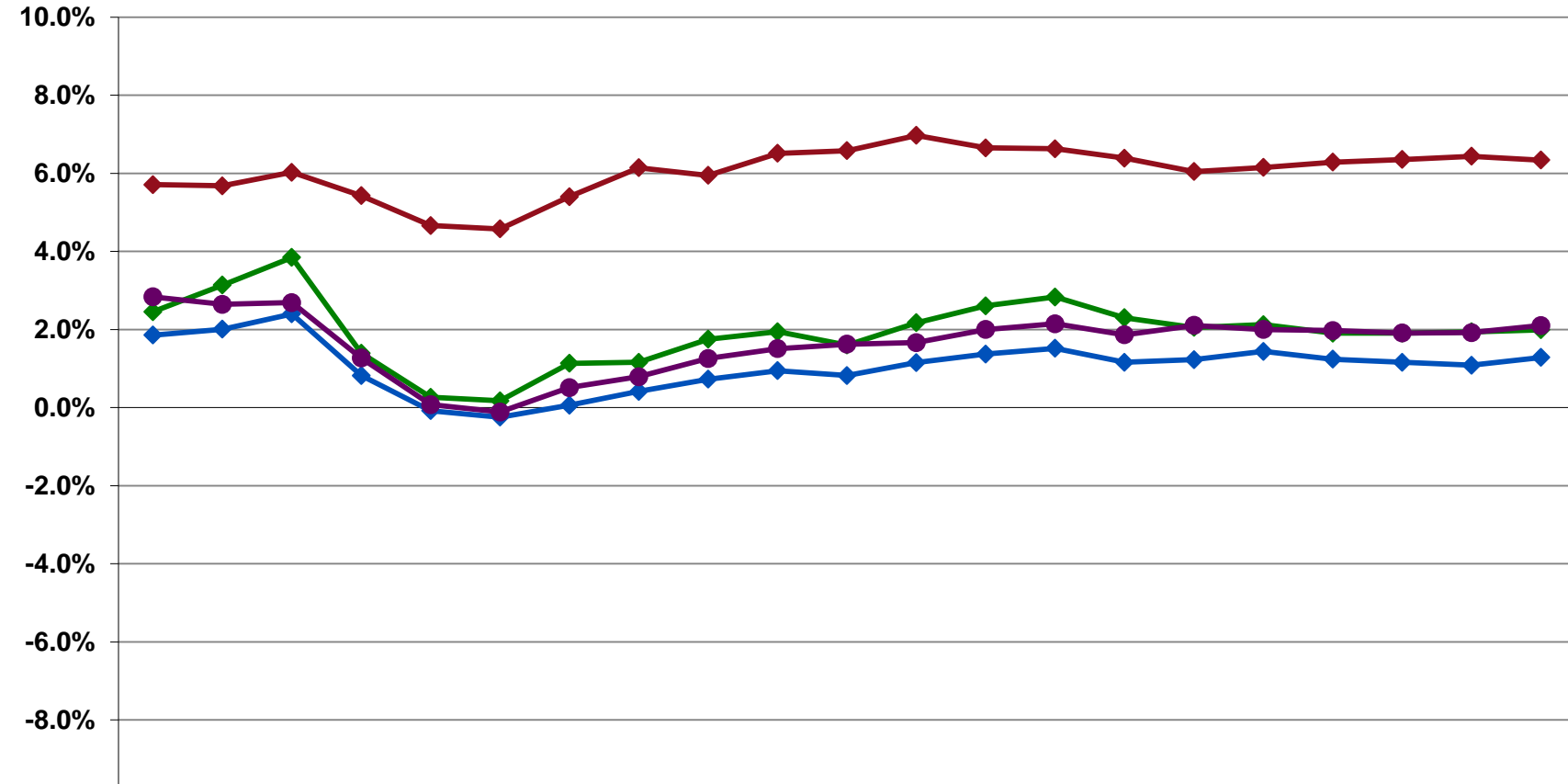
Thinking about the coming 12 months, please comment on the probable change for your organization for ...



Pricing & Costs

Average Change Expected

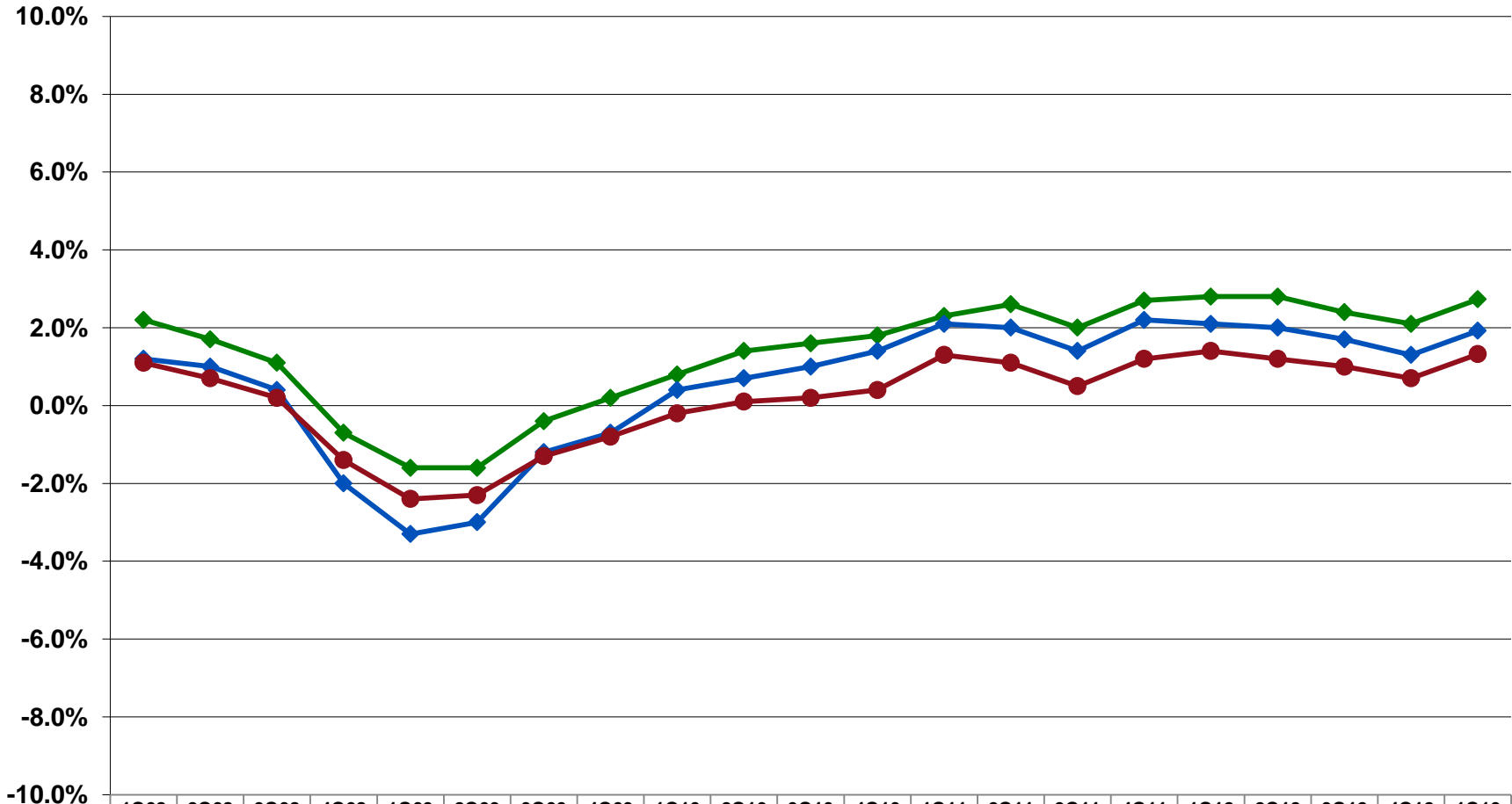
Thinking about the coming 12 months, please comment on the probable change for your organization ...



	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
Input Prices	2.5%	3.1%	3.8%	1.4%	0.3%	0.2%	1.1%	1.2%	1.8%	1.9%	1.6%	2.2%	2.6%	2.8%	2.3%	2.1%	2.1%	1.9%	1.9%	1.9%	2.0%
Prices Charged	1.9%	2.0%	2.4%	0.8%	-0.1%	-0.2%	0.1%	0.4%	0.7%	0.9%	0.8%	1.2%	1.4%	1.5%	1.2%	1.2%	1.4%	1.2%	1.2%	1.1%	1.3%
Salary & Benefits	2.8%	2.6%	2.7%	1.3%	0.1%	-0.1%	0.5%	0.8%	1.3%	1.5%	1.6%	1.7%	2.0%	2.2%	1.9%	2.1%	2.0%	2.0%	1.9%	1.9%	2.1%
Healthcare	5.7%	5.7%	6.0%	5.4%	4.7%	4.6%	5.4%	6.1%	6.0%	6.5%	6.6%	7.0%	6.7%	6.6%	6.4%	6.0%	6.2%	6.3%	6.4%	6.4%	6.3%

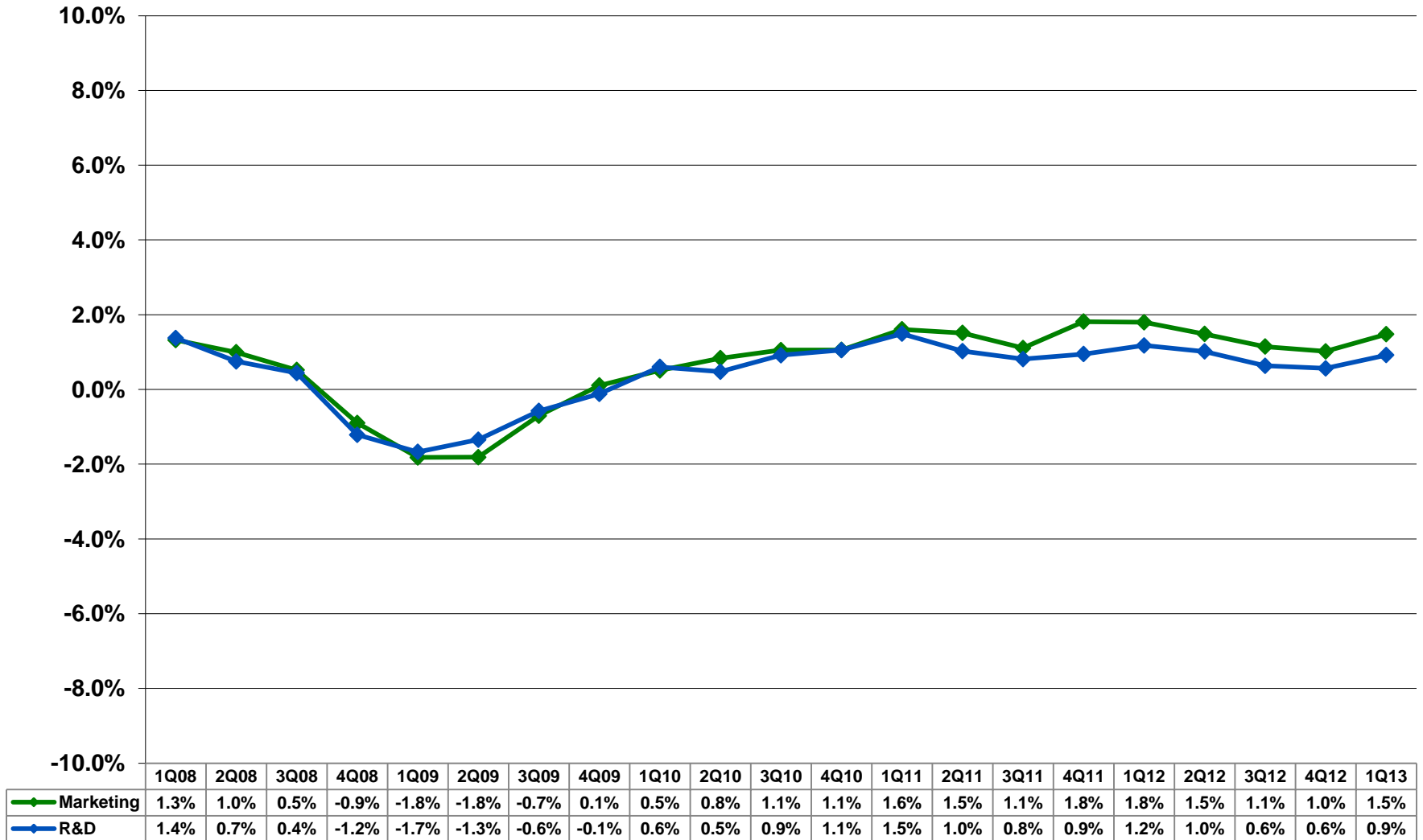
Spending Plans IT, Other Capital & Training

Thinking about the coming 12 months, please comment on the probable change for your organization for ...



Spending Plans Marketing & R&D

Thinking about the coming 12 months, please comment on the probable change for your organization for ...



Hiring Plans

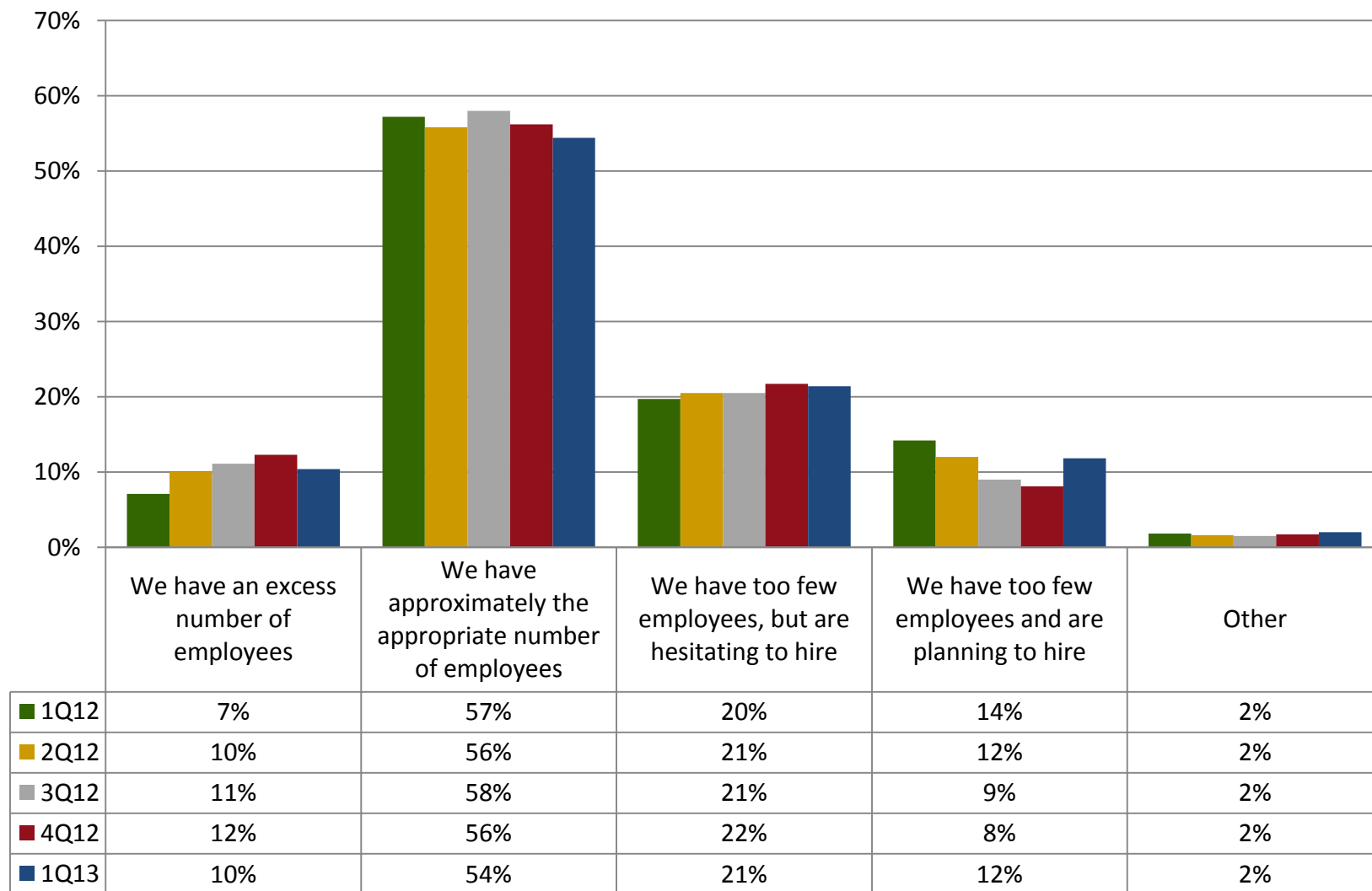
Hiring Plans

■ Hiring plans show slight improvement over Q3 and Q4 2012

- Slightly more than half of all companies (54%) say they have the right number of employees
- In Q1 2013 only 10% say they have too many employees, down from 12% at Q4 2012
- Consistent with the pattern in 2012, a third (33%) have too few employees
 - Of these, 12% are planning to hire, up slightly from only 8% at Q4 2012 and 9% at Q3 201
 - The remaining 21% say they are hesitating to hire

Overall staff situation relative to your needs

Given current conditions, how would you characterize your overall staffing situation relative to your needs (i.e., do you have excess capacity or are employees stretched)?



Liquidity

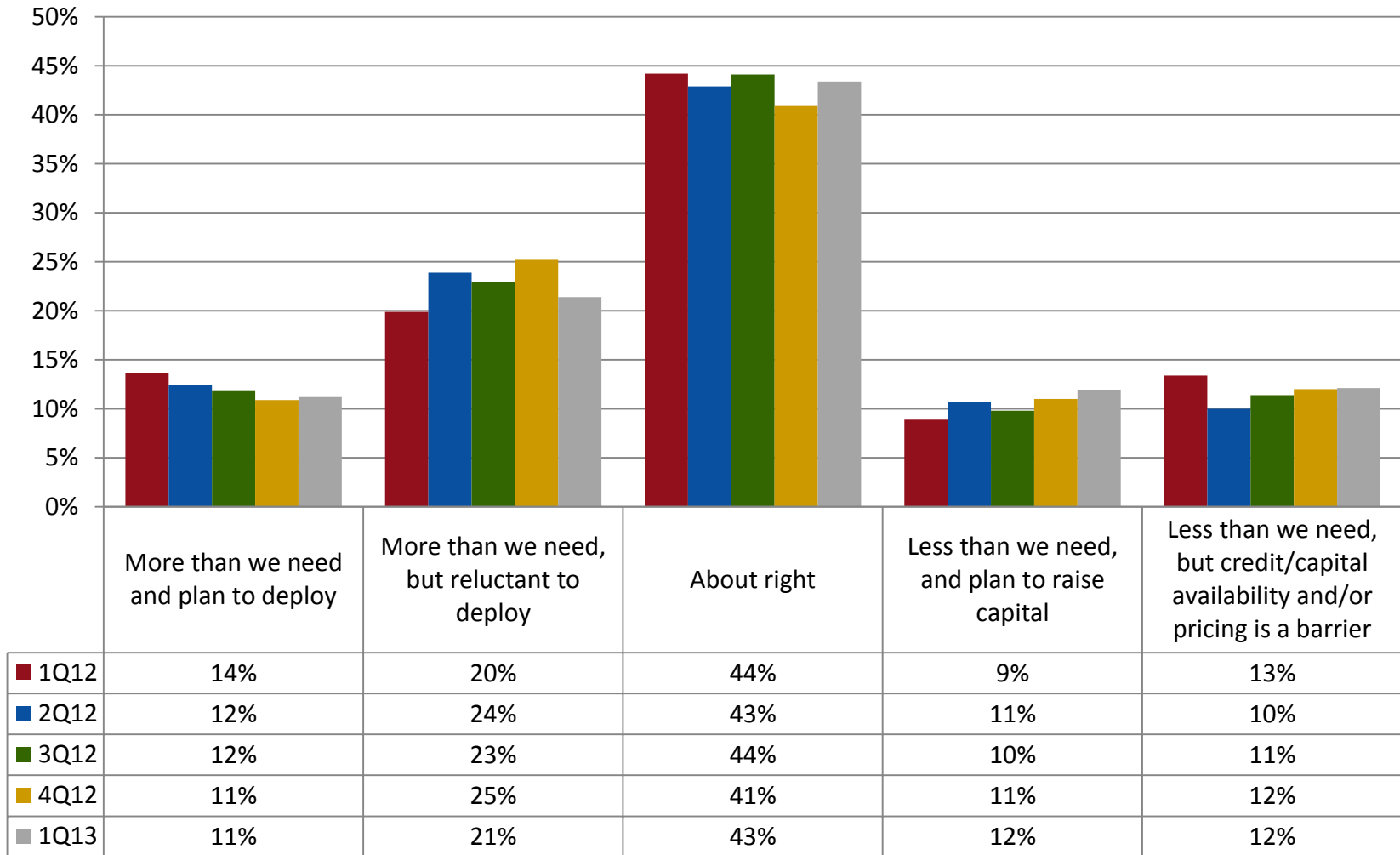
Liquidity

- **Liquidity positions overall have remained largely unchanged, however differences between size categories are noteworthy**
 - At Q1, 50% of companies with revenues in excess of \$1bn say they have more liquidity than they need; 17% say they plan to deploy, while one-third are reluctant, a slight increase from 31% reluctant at Q4 2012
 - Only 22% of companies with revenues < \$10 million have excess cash; 6% are planning to deploy and 16% are reluctant, down from 21% reluctant at Q4
 - Fewer companies with revenues between \$10 and \$100m have excess cash than at Q4 (24% vs. 38%), but only 13% are reluctant to deploy vs. 26% who were reluctant at Q4

- **Overall respondents expect credit availability to be slightly less difficult**
 - However 18% of smaller companies anticipate more challenges, while only 3% of the very large businesses feel that way

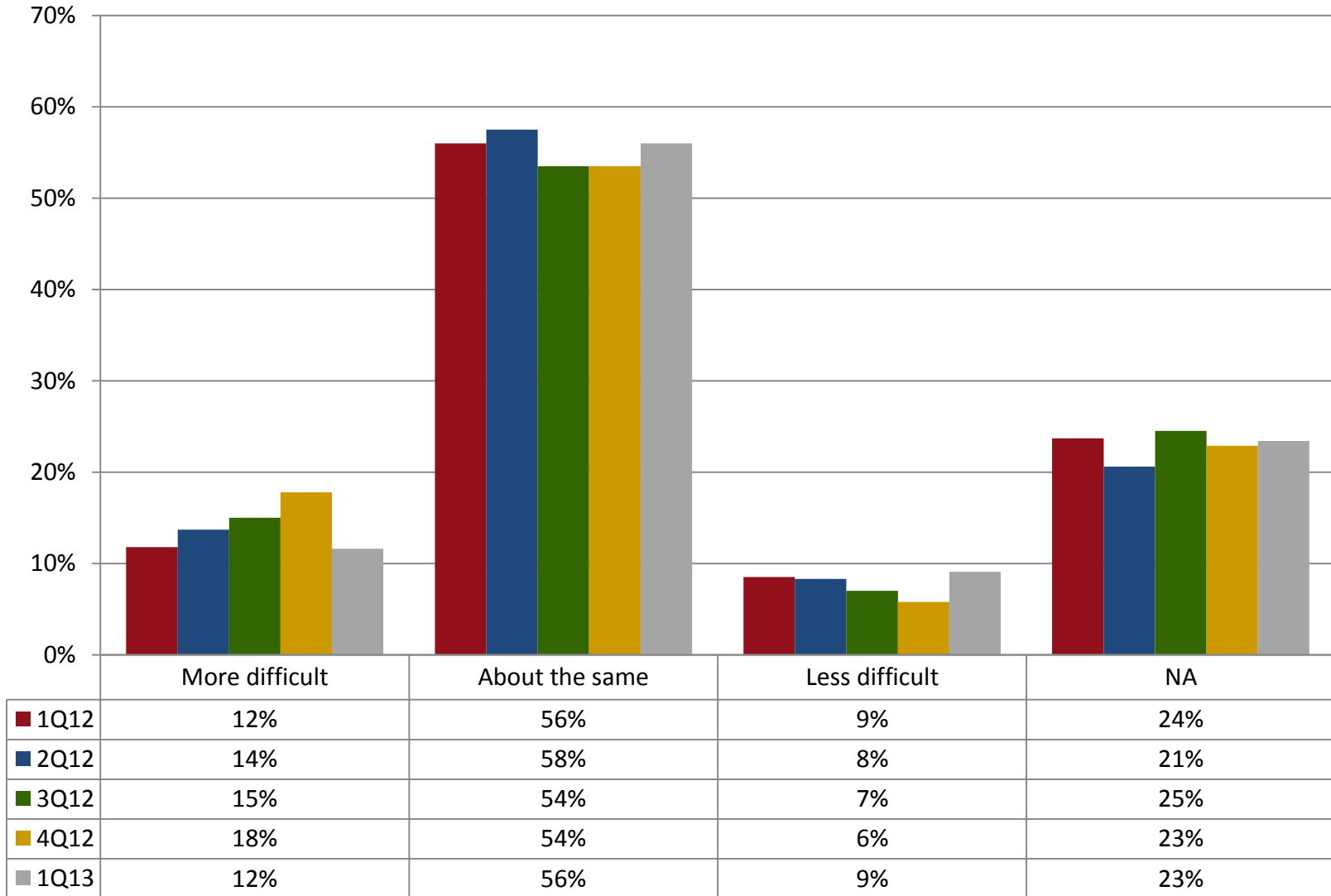
Cash & Liquidity Position

How would you characterize your organization's current liquidity position



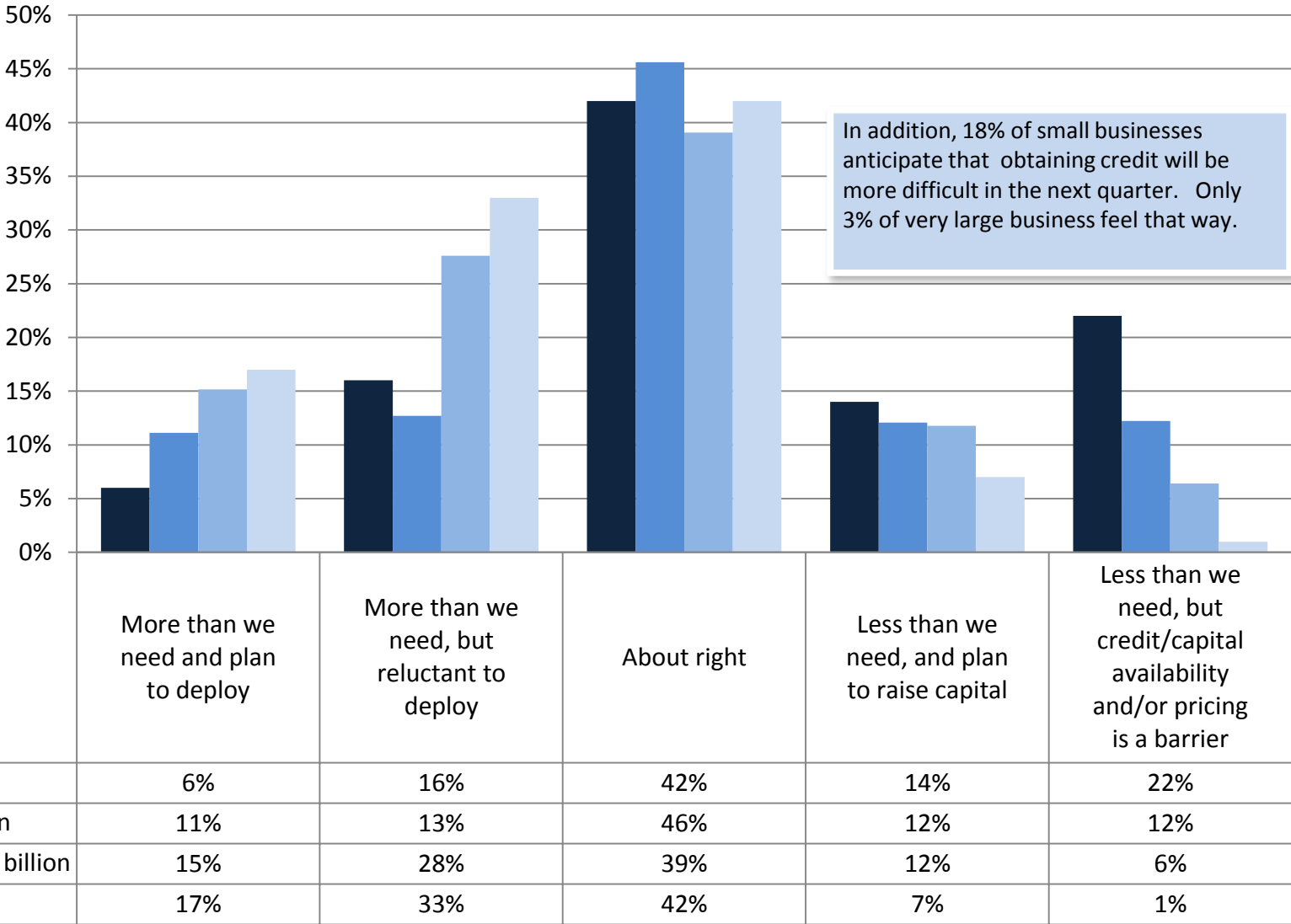
Difficulty Obtaining Required Financing

Do you expect it to be more or less difficult to obtain your required financing in the next quarter?



Small businesses have less cash and anticipate more problems obtaining it

How would characterize your organization's current liquidity position



Top Challenges

Top Challenges Facing Organizations

- **Domestic economic conditions and regulatory requirements/changes continue as the top-ranked challenges**
- **Employee and benefit cost concerns move into the third spot, switching rank order with domestic political leadership, now at #4**
- **Domestic competition continues to move up, now in the #5 spot, while global economic concerns continue to move down, now in the 9th spot**

Top Challenges for Organizations

Please indicate the top three challenges for your organization

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

Note: Challenge categories were modified in Q4 2011.

Outlook by

Industry, Region and Business Size

Industry, Region and Business-size Outlook

■ Optimism improved across all sectors except healthcare -other

- Professional services, technology, real estate and manufacturing all show strong increases in optimism about their prospects
- Healthcare – other shows sharpest decline; healthcare providers continue to be least optimistic
- All sectors showing improvement in projected headcount increases over Q4 except for healthcare – other

■ Optimism up sharply across all regions

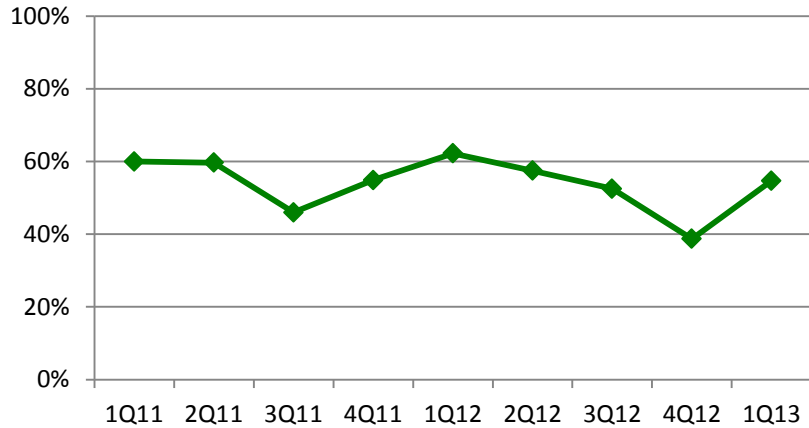
- All regions showing improvement from levels near 40% in Q4 to over 60% for all regions and 70% for business in the West

■ Expansion plans also up for business of all sizes

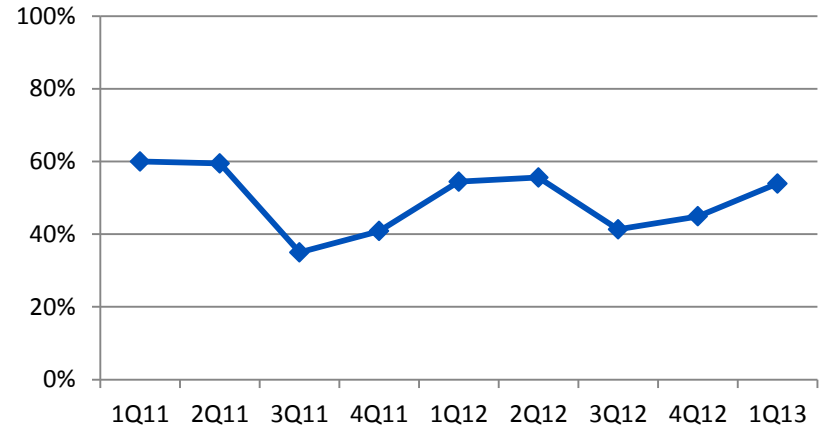
- More than half of businesses in all size categories showed improvements in optimism over Q4
- Large companies show most improvement, reversing downward trend of 2012
- Roughly a quarter (26%) of both the smallest and largest companies are still indicating a reluctance to hire, but more hiring is being done by companies in the largest tier (18%) than companies in the smallest tier (10%)

Organization Optimism by Industry

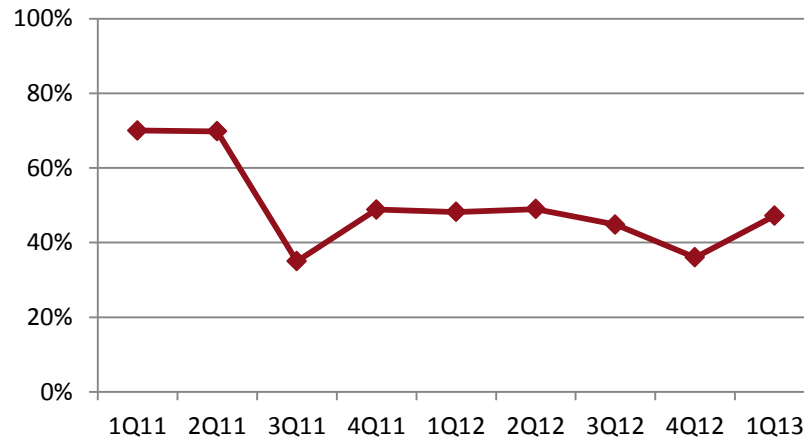
Manufacturing



Wholesale Trade

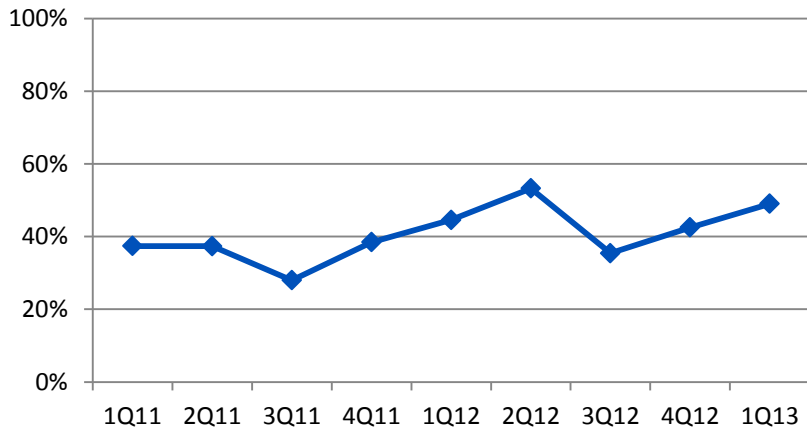


Retail Trade

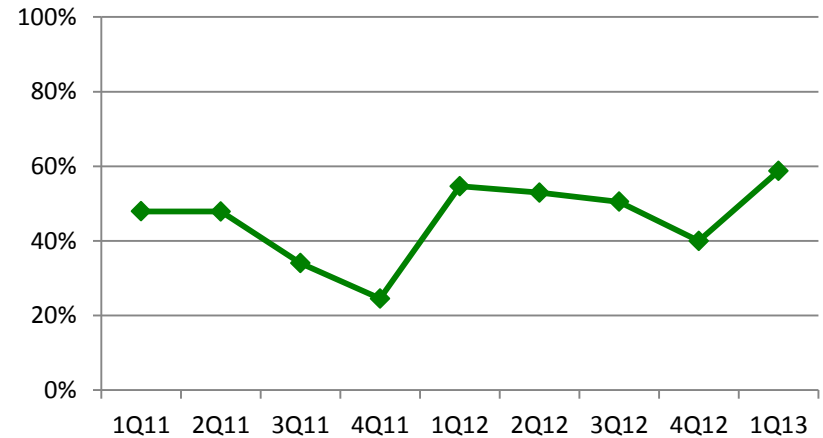


Organization Optimism by Industry

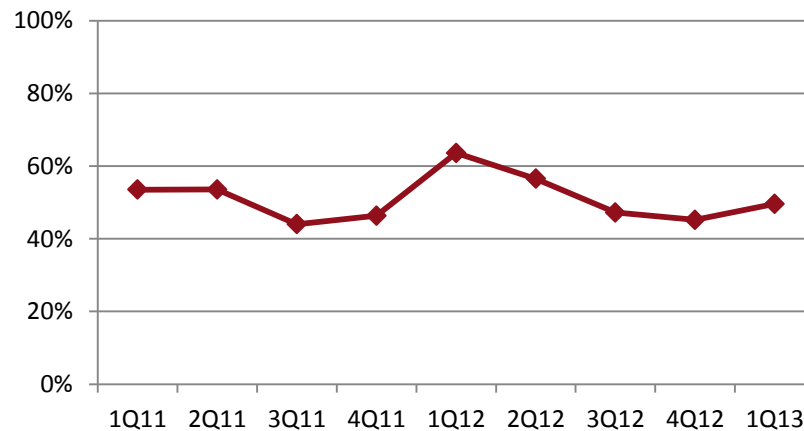
Construction



Real Estate

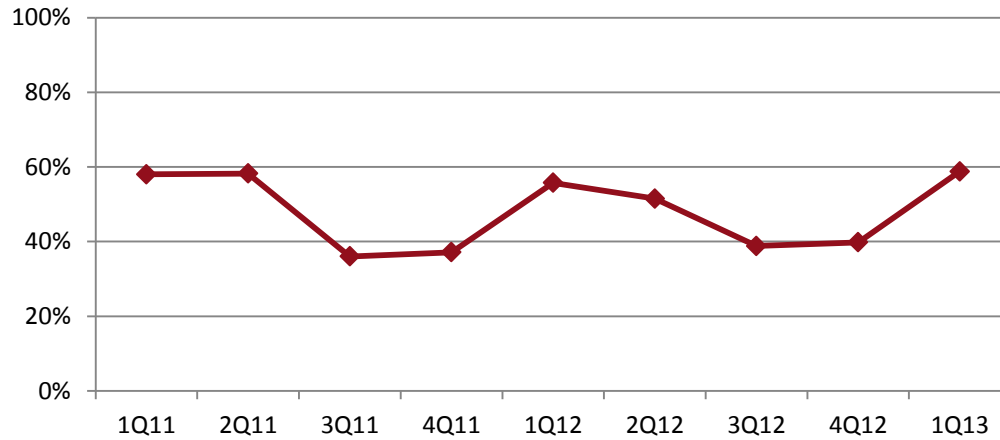


Finance & Insurance

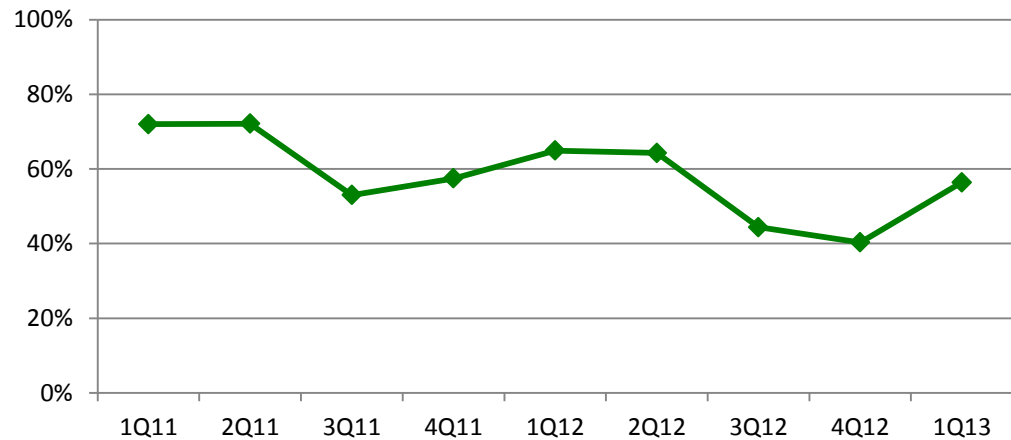


Organization Optimism by Industry

Professional Service

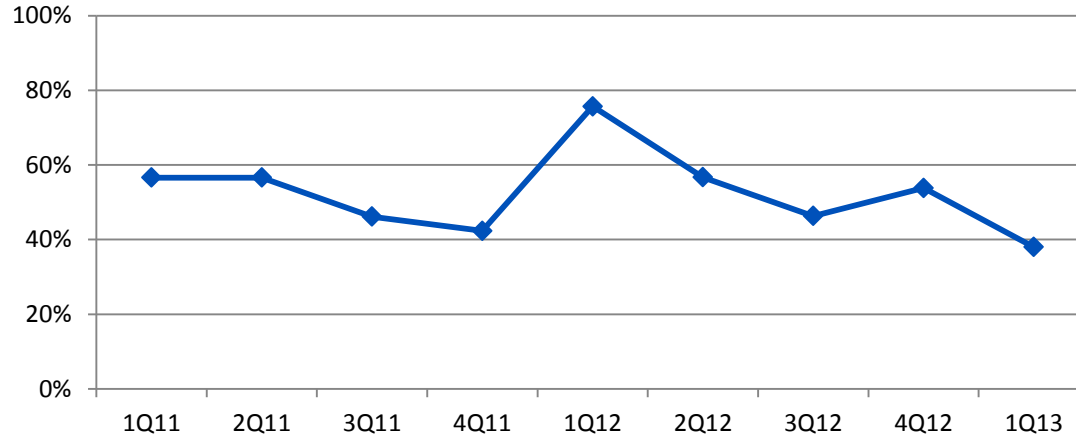


Technology

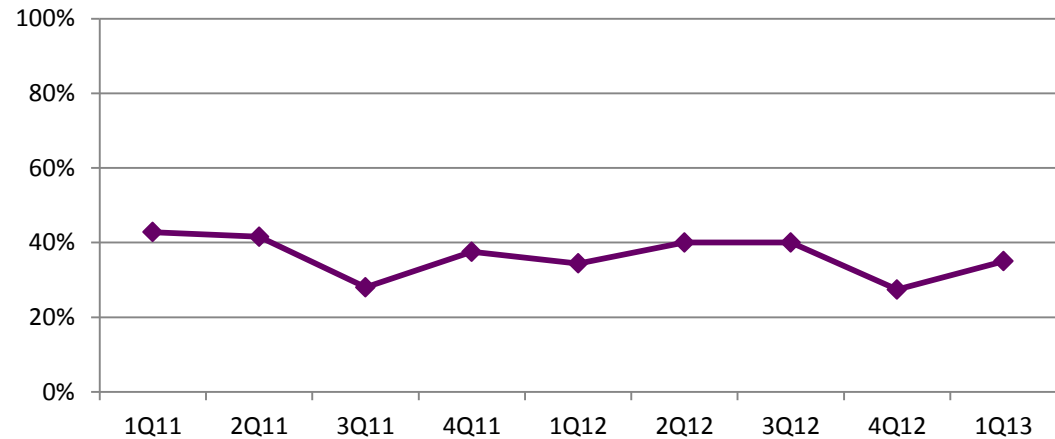


Organization Optimism by Industry

Health Care Other

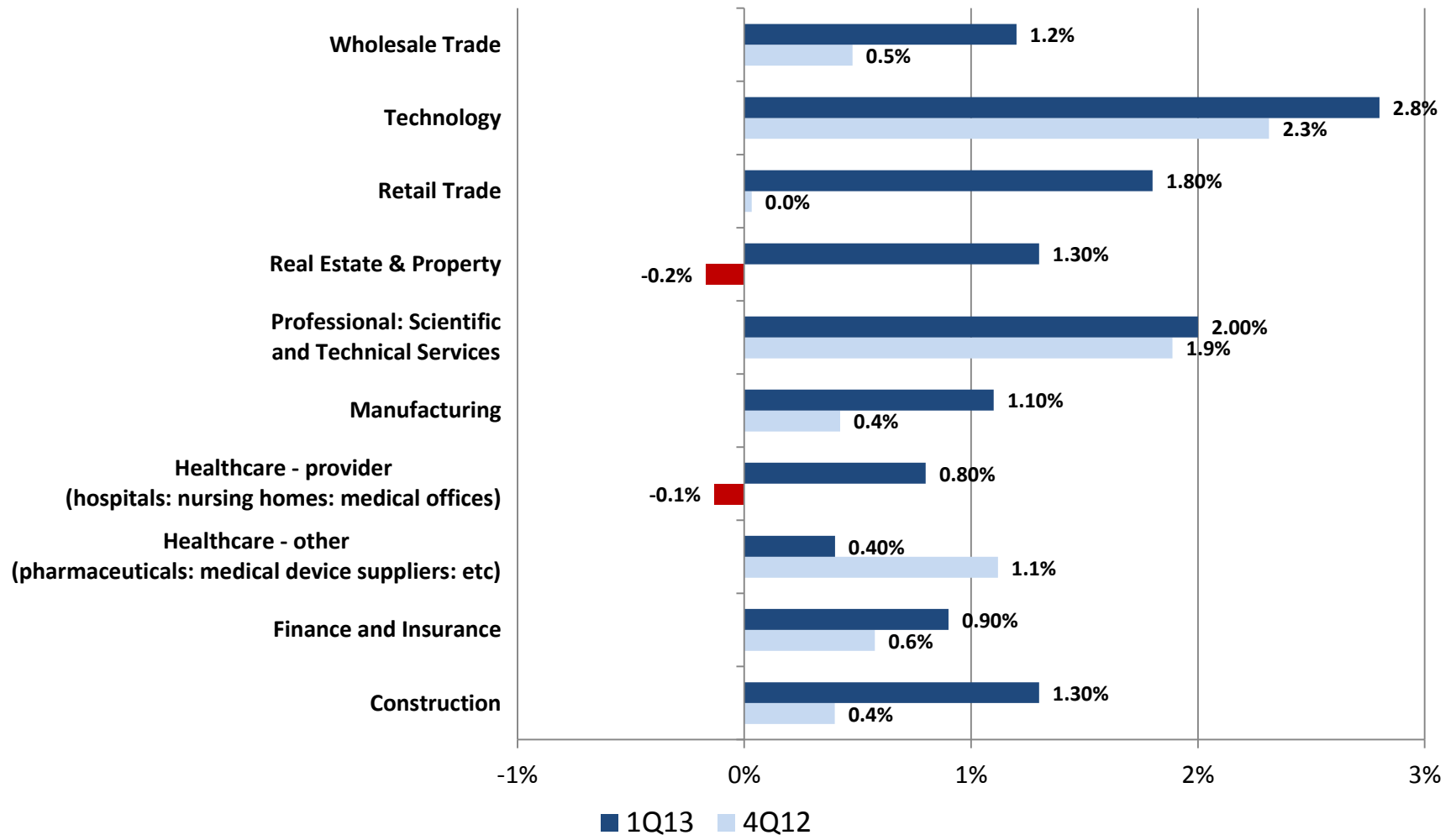


Health Care Provider



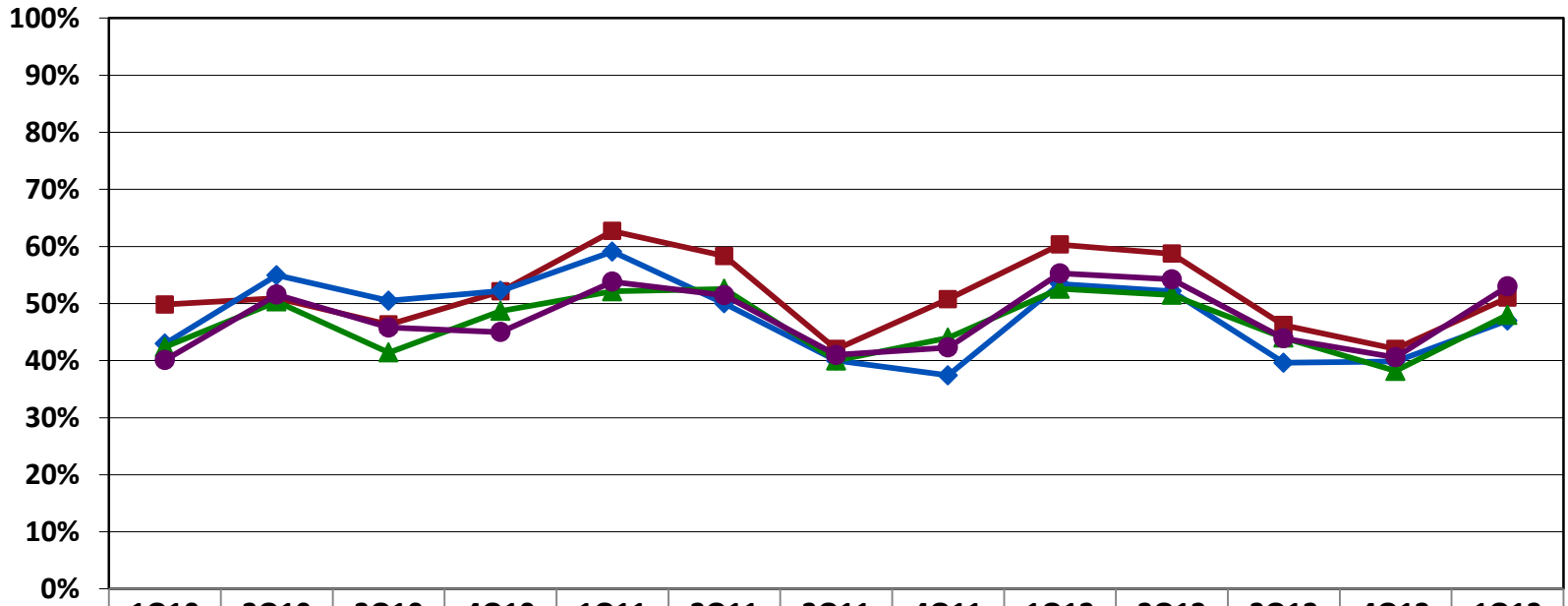
Expected Employment Change by Industry

Thinking about the coming 12 months, please comment on the probable change for your organization for Number of Employees



Organization Optimism by Region

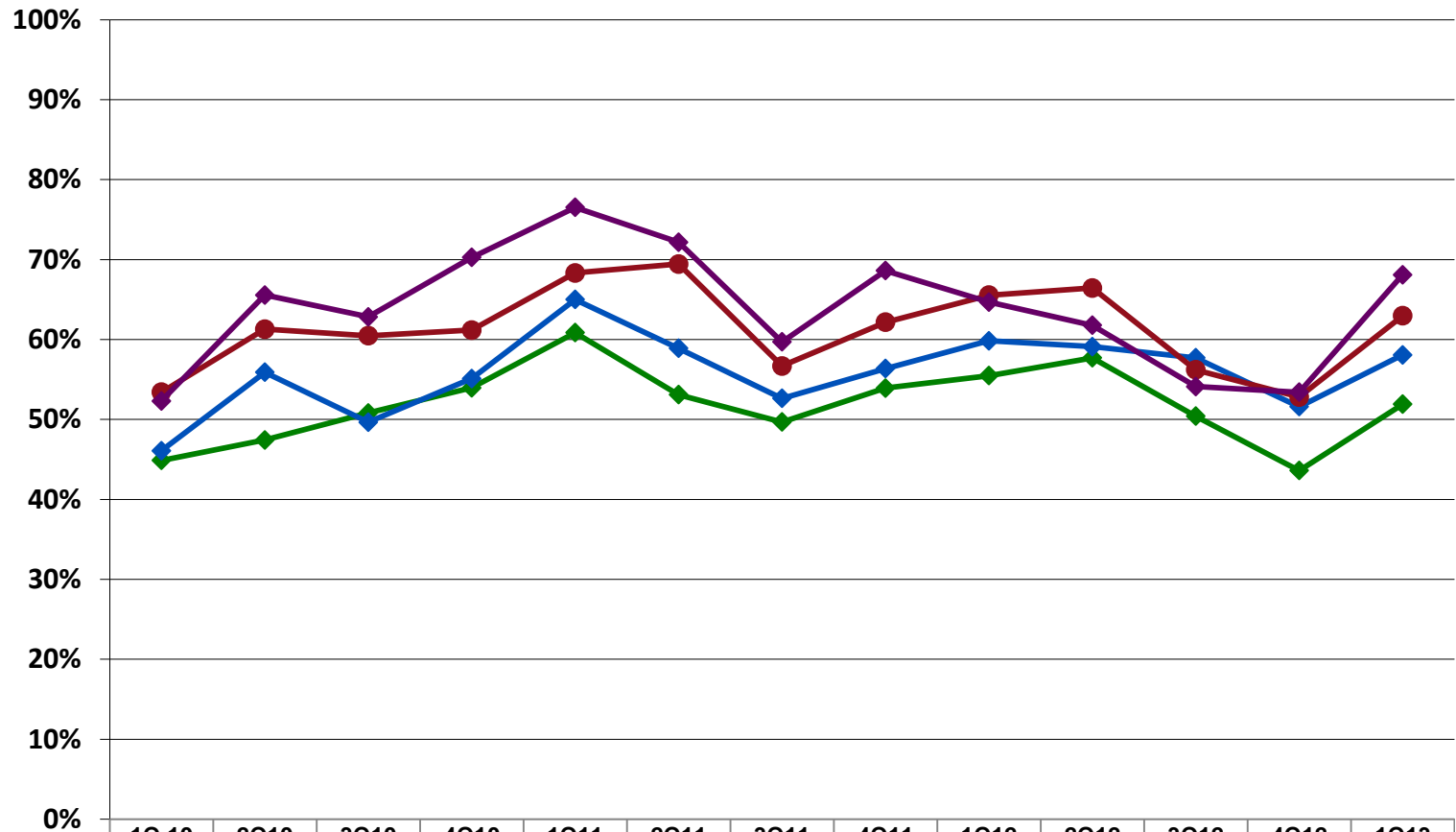
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months.



	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
Midwest	50%	51%	46%	52%	63%	58%	42%	51%	60%	59%	46%	42%	51%
Northeast	43%	55%	50%	52%	59%	50%	40%	37%	53%	52%	40%	40%	47%
South	42%	50%	41%	49%	52%	53%	40%	44%	53%	51%	44%	38%	48%
West	40%	52%	46%	45%	54%	51%	41%	42%	55%	54%	44%	41%	53%

Expansion Plans by Business Size

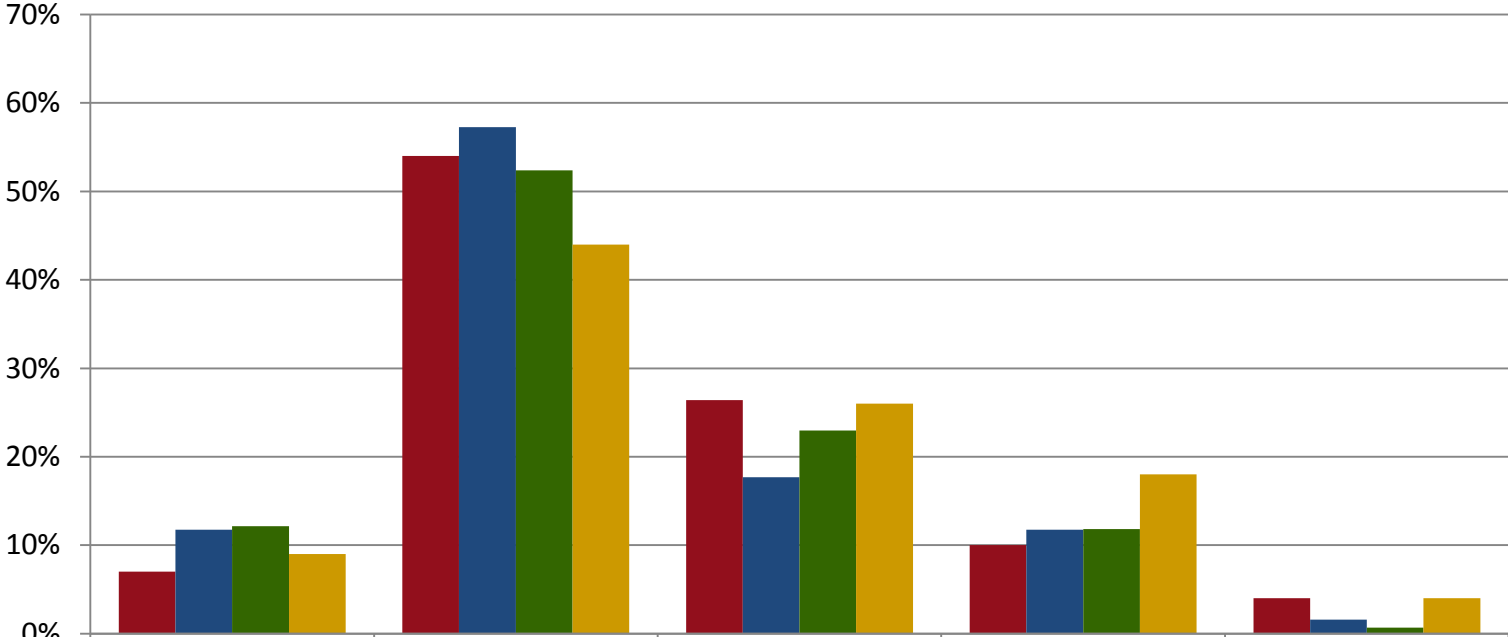
Please indicate whether you expect your business to expand or contract over the next 12 months



	1Q 10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13
◆ < \$10 million	45%	47%	51%	54%	61%	53%	50%	54%	55%	58%	50%	44%	52%
◆ \$10 to <\$100 million	46%	56%	50%	55%	65%	59%	53%	56%	60%	59%	58%	52%	58%
◆ \$100 million to <\$1 billion	53%	61%	60%	61%	68%	69%	57%	62%	66%	66%	56%	53%	63%
◆ > \$1 billion	52%	66%	63%	70%	77%	72%	60%	69%	65%	62%	54%	53%	68%

Small businesses are least likely to have excess employees and most hesitant to hire

Given current conditions, how would you characterize your overall staffing situation relative to your needs (i.e., do you have excess capacity or are employees stretched)?



	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
■ < \$10 million	7%	54%	26%	10%	4%
■ \$10 to <\$100 million	12%	57%	18%	12%	2%
■ \$100 million to <\$1 billion	12%	52%	23%	12%	1%
■ > \$1 billion	9%	44%	26%	18%	4%

Survey within a Survey

Each quarter this survey asks questions on a special topic in order to better understand the views and actions of AICPA members. This quarter the “survey within a survey” focused on fiscal options for the US and priorities for various objectives in 2013.

Fiscal options and priorities for 2013

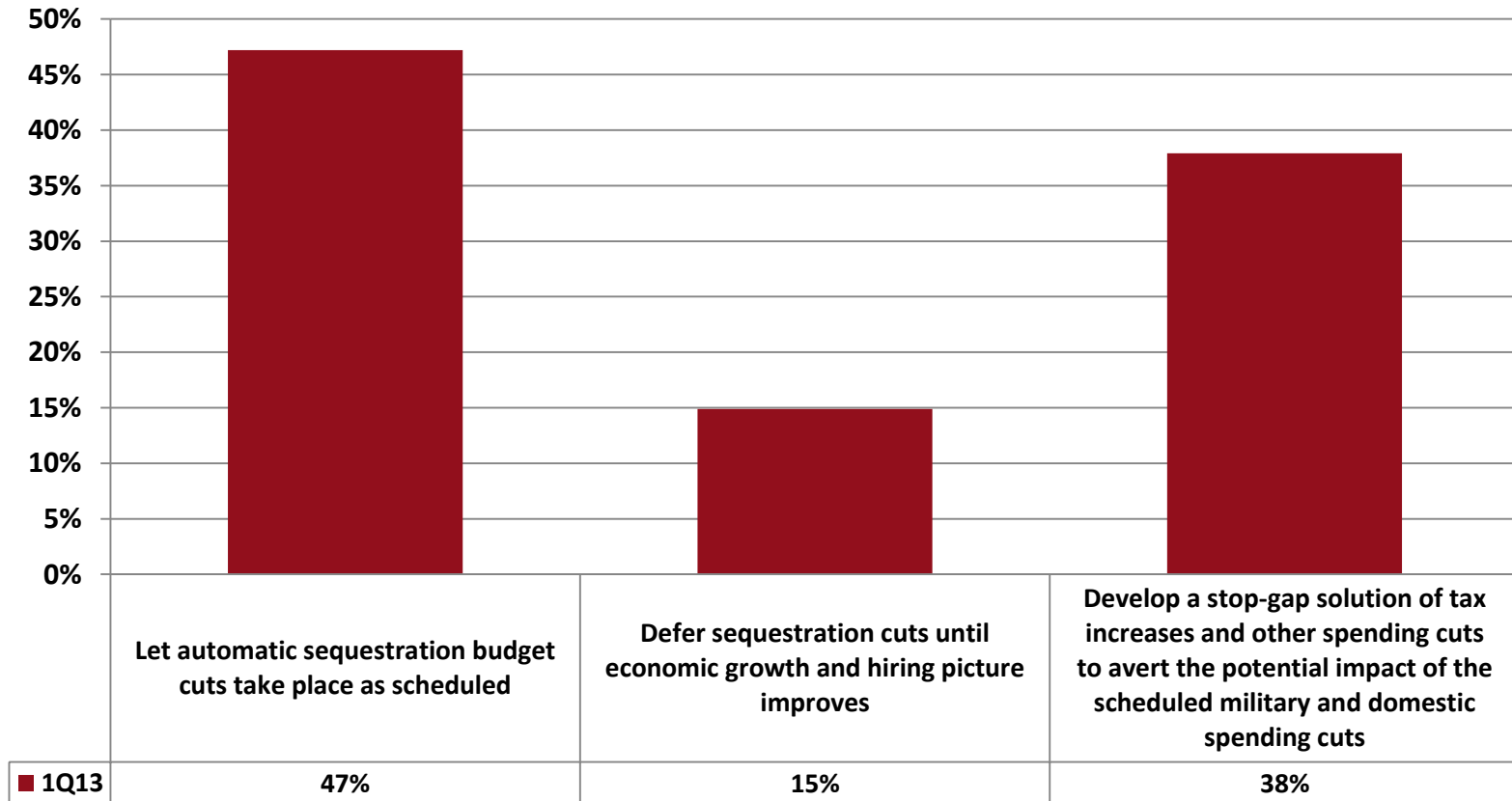
- **Facing the sequestration budget deadline of March 1,**
 - 47% of survey respondents favored letting the sequestration budget cuts take place as scheduled
 - 15% were in favor of deferring the scheduled cuts until the economic growth and hiring picture improves
 - 38% indicated a preference for a 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
 - 60% expected either slight or minimal impact.

- **Improving productivity, increasing domestic sales and cost reduction are highest priorities for business in 2013**
 - New technology and employee training and development also important
 - R&D and increasing foreign sales are lowest priority initiatives

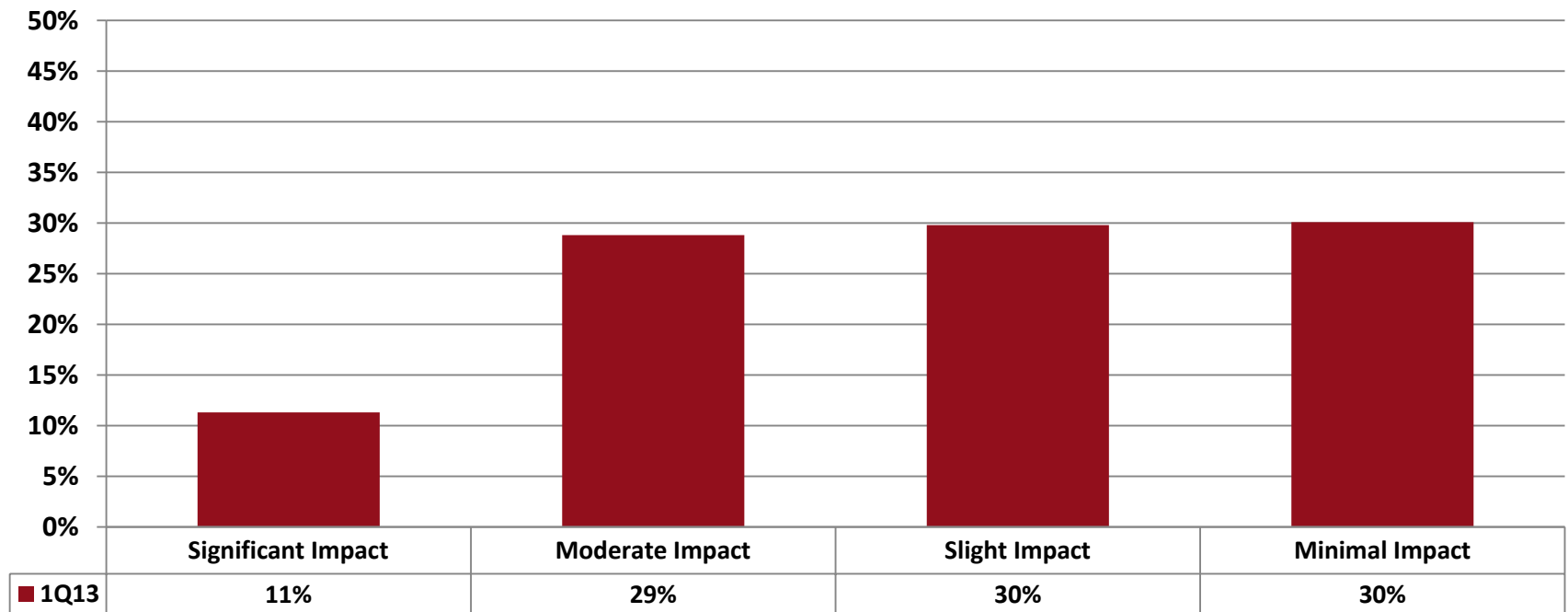
Fiscal Policy

With respect to the current US fiscal policy debate, which of the following do you think is the best approach?



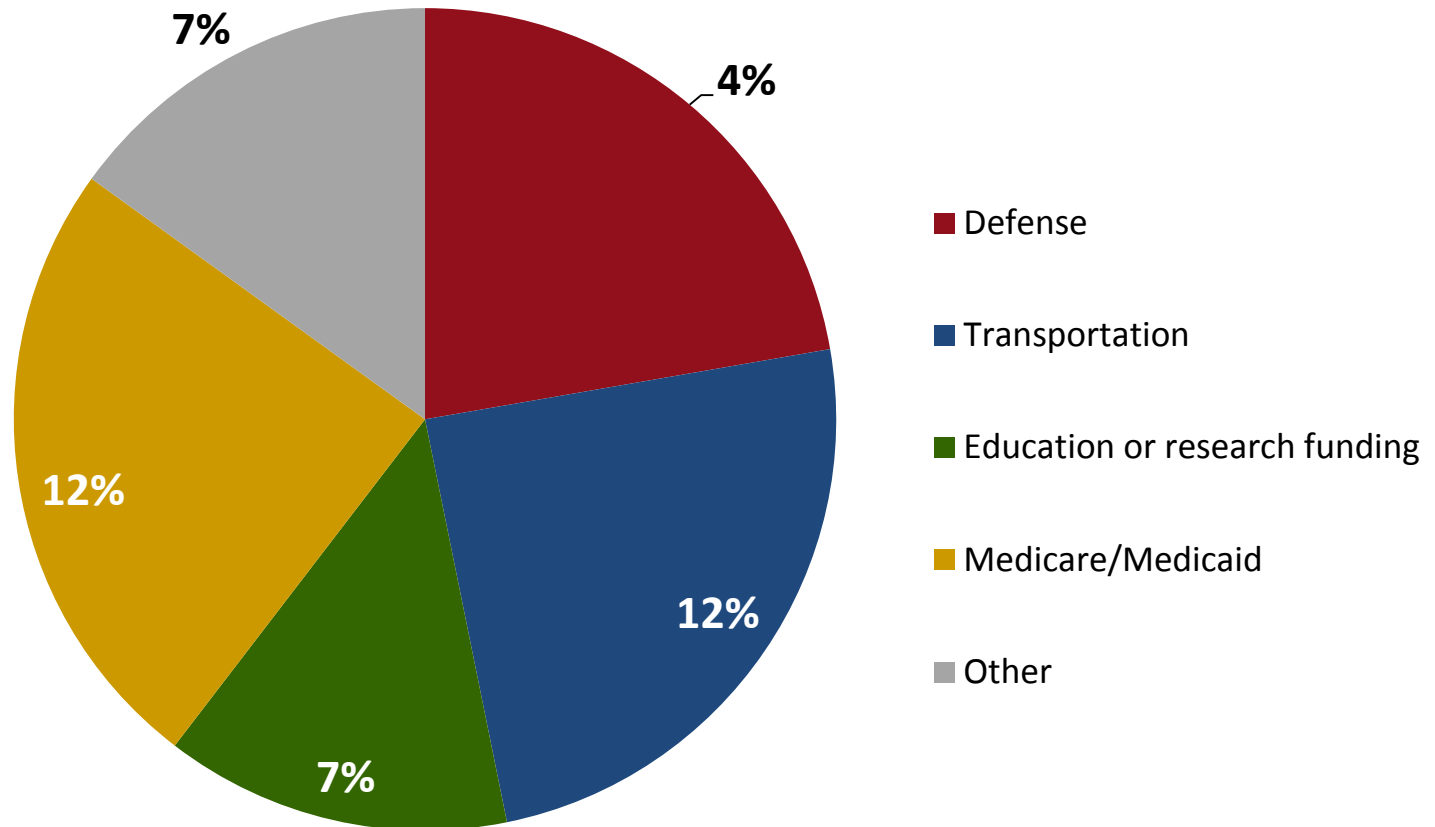
Sequestration Spending Cuts

How significant would the impact of the scheduled sequestration spending cuts be for your business?



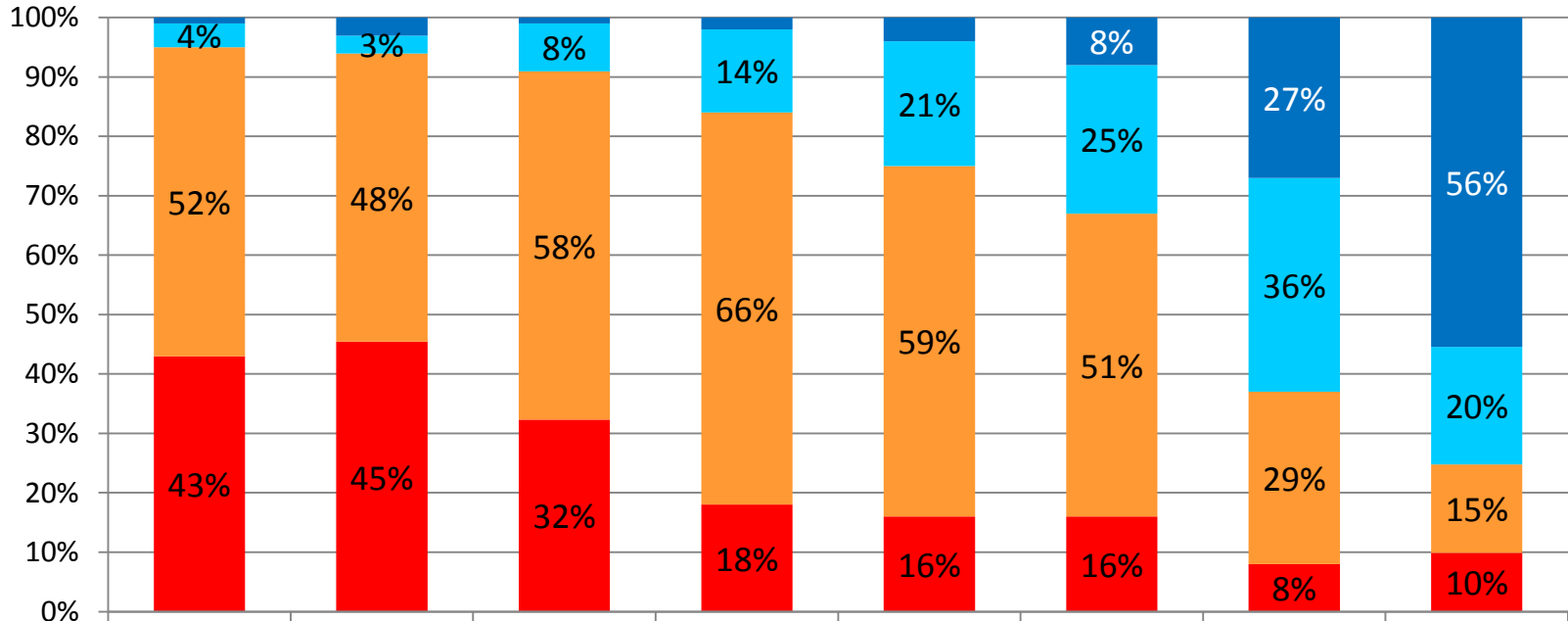
Sequestration Spending Cuts

Which areas of sequestration spending cuts would have the greatest impact on your business?



Importance of Various Objectives in 2013

To what extent would you consider the following to be important for your company in 2013?

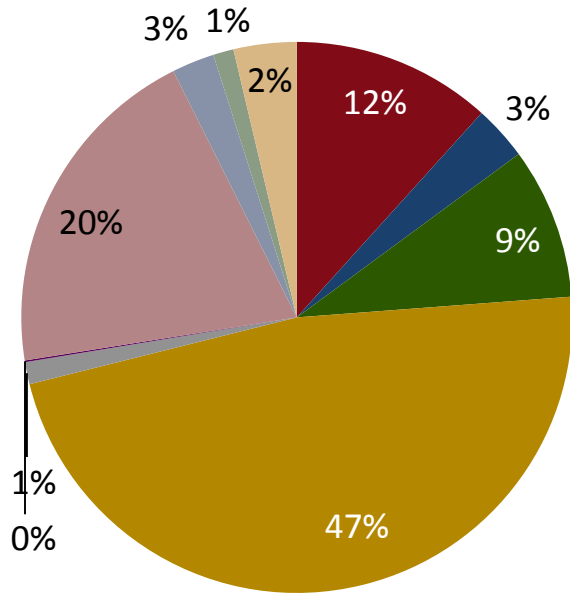


	Improving productivity	Increasing sales domestically	Reducing costs	Employee training and skill development	Investing in new technology	Expanding operations	Investing in R&D	Increasing sales in foreign markets
■ Not at all important	1%	3%	1%	2%	4%	8%	27%	56%
■ Unimportant	4%	3%	8%	14%	21%	25%	36%	20%
■ Important	52%	48%	58%	66%	59%	51%	29%	15%
■ Very important	43%	45%	32%	18%	16%	16%	8%	10%

Demographics

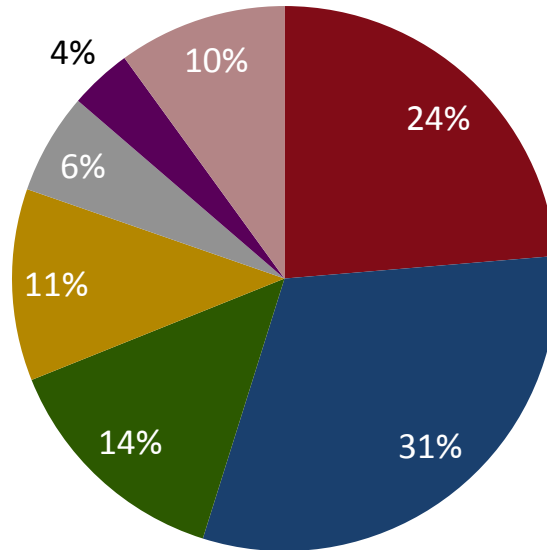
Demographics

Position



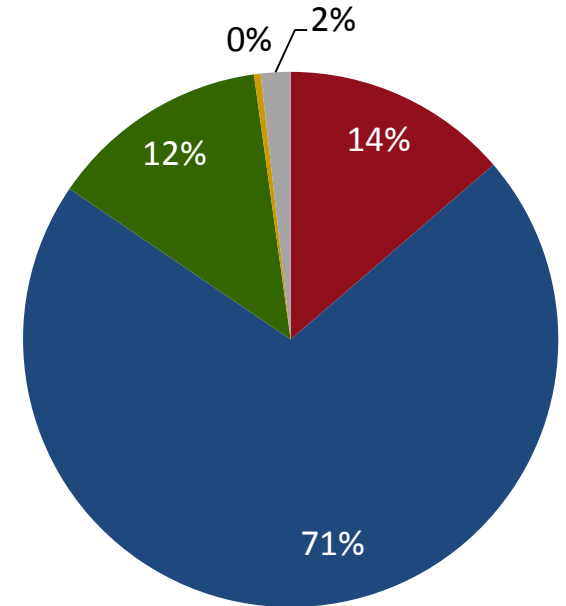
- CEO/President
- COO
- VP
- CFO
- CAO/CAE
- CIO
- Controller
- Director
- Accounting, Audit, Tax or Technology Manager
- Other

Size of Organization



- \$0 to under \$10 million
- \$10 million to under \$50 million
- \$50 million to under \$100 million
- \$100 million to under \$250 million
- \$250 million to under \$500 million
- \$500 million to under \$1 billion
- \$1 billion or more

Type of Organization



- Publicly Listed Company
- Privately Owned Entity
- Not for Profit
- Government
- Other



AICPA
Business and Industry
Economic Outlook Survey
1Q 2013

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