



AICPA

Business and Industry

Economic Outlook Survey

Detailed Survey Results — 1Q 2014

Survey Background

- **Conducted between February 12 and 26, 2014**
- **Quarterly Survey**
- **CPA decision makers (primarily CFOs, CEOs and Controllers)**
- **AICPA members in Business & Industry only**
- **903 total responses, 867 qualified responses**

Survey Highlights

■ CPA Outlook Index maintains it's high watermark

- Overall index increased to 70
- US economy optimism index component increased 9 points in 1Q to 65, primarily on perceived improvements in the employment situation, consumer spending and the political situation.
- The organization optimism index improved from 73 to 74 in Q1
- Optimism continues to be strong across all sectors with the exception of healthcare and wholesale trade; technology continues to be the most optimistic sector

■ Improvement continues in key indicators

- While revenue expectations eased a point from 77 to 76, profit expectations increased a point, and spending plans continue to be relatively strong

■ Hiring plans improve slightly, but continue to be soft

- Roughly a third (34%) of companies have too few employees
- The number of companies with too few employees that are planning to hire increased from 13% in Q4 2013 to 15% in Q1 2014;
- 19% of companies with too few employees continue to be reluctant to hire

CPA Outlook Index (CPAOI)

CPA Outlook Index

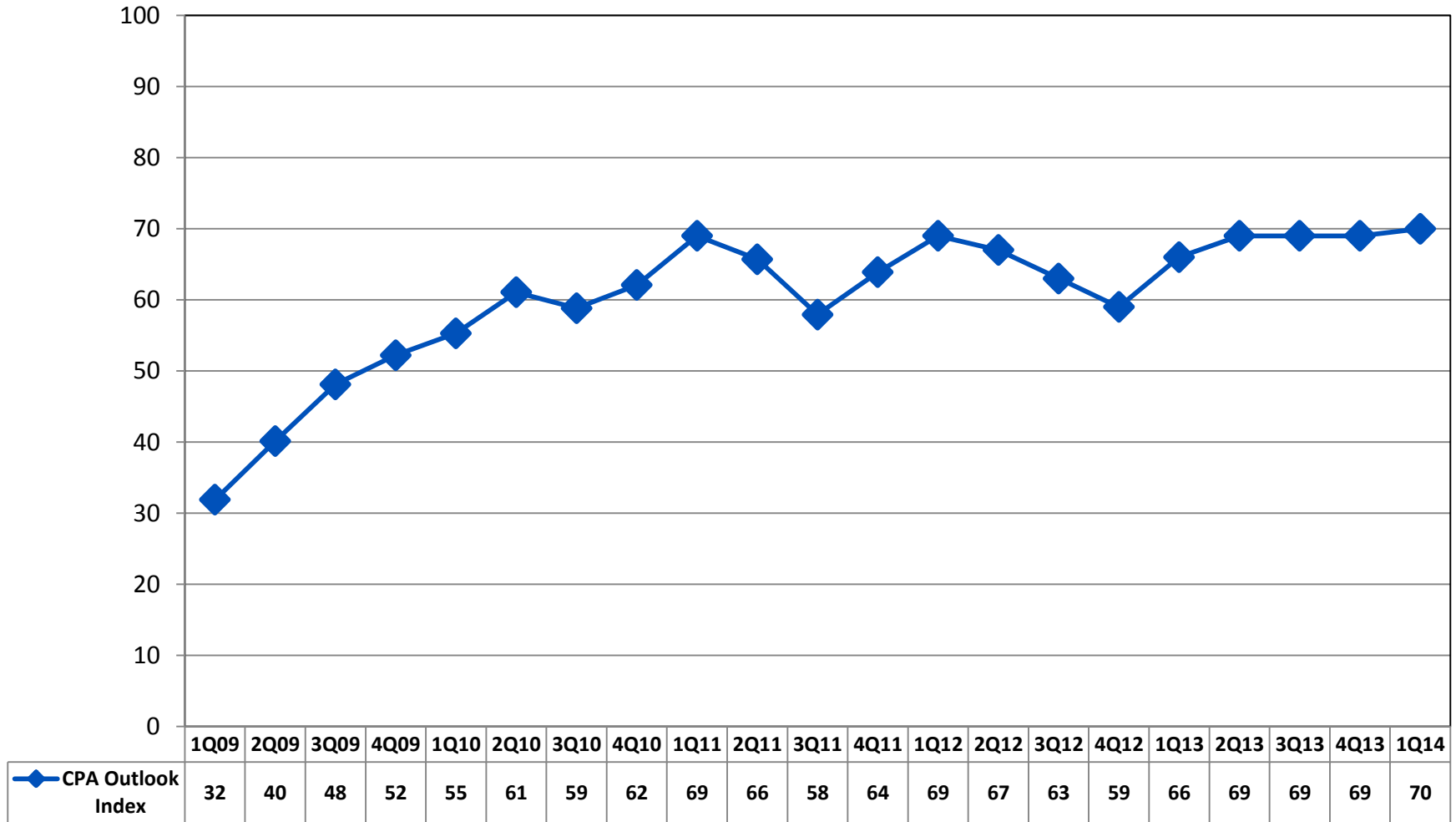
The CPA Outlook Index is a robust measure of sentiment about the U.S. economy that is supported by the unique insight and knowledge that CEOs, CFOs, Controllers, and other CPA executives have about the prospects for their own organizations, their expectations for revenues and profits, and their plans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

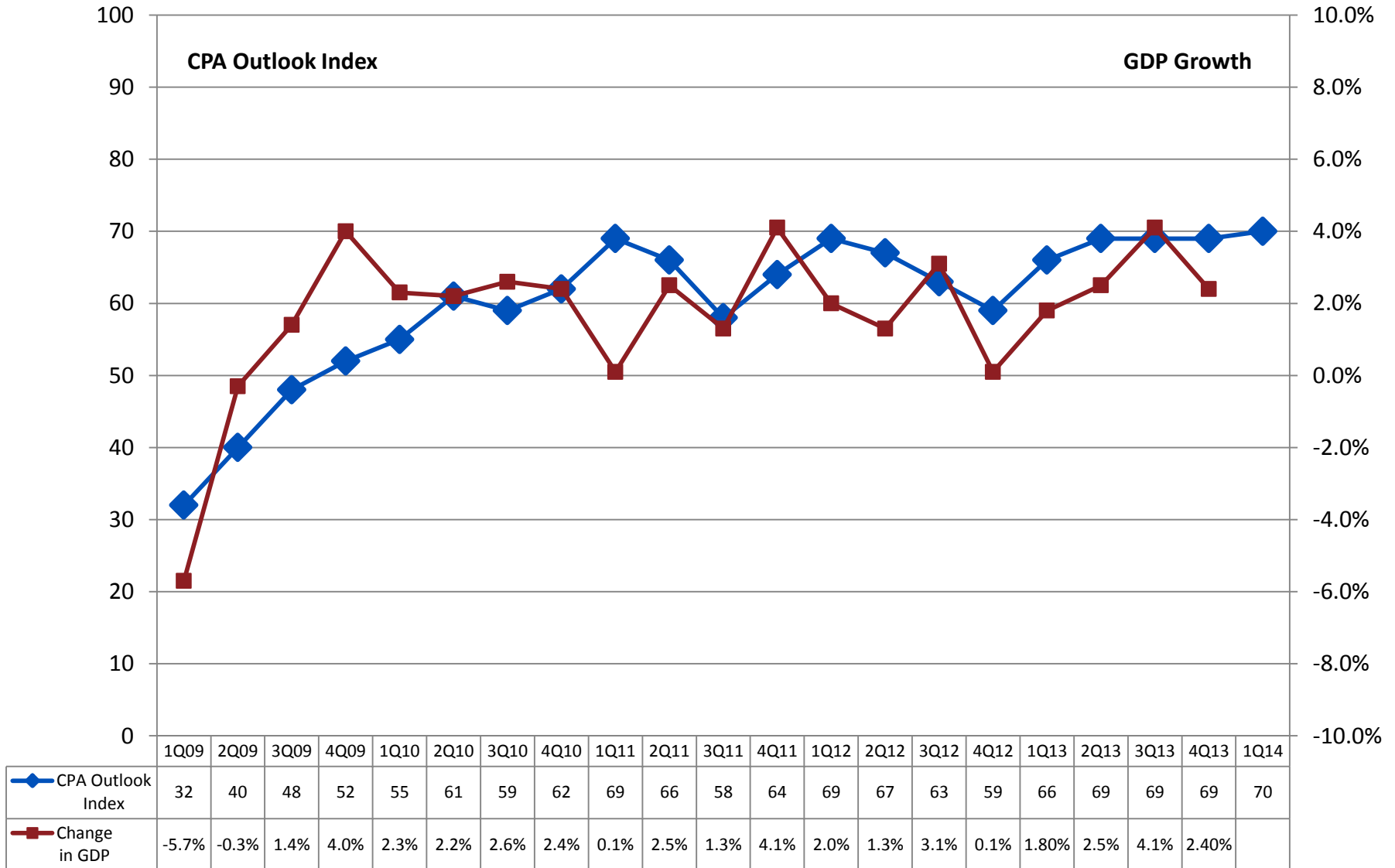
CPA Outlook Index (CPOAI)



CPA Outlook Index Component Indicators

Component	1Q13	2Q13	3Q13	4Q13	1Q14	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	50	66	62	56	65	↑ 09	↑ 15
Organization Optimism	67	72	71	73	74	↑ 01	↑ 07
Expansion Plans	70	72	74	74	74	→ 00	↑ 04
Revenue	72	74	76	77	76	↓ 01	↑ 04
Profits	65	67	68	69	70	↑ 01	↑ 05
Employment	61	62	64	64	64	→ 00	↑ 03
IT Spending	74	75	75	76	76	→ 00	↑ 02
Other Capital Spending	66	67	68	69	67	↓ 02	↑ 01
Training & Development	65	66	65	67	68	↑ 01	↑ 03
Total CPAOI	66	69	69	69	70	↑ 01	↑ 04

CPA Outlook Index (CPAOI) vs GDP



U.S. & Organization Outlook

Outlook for the U.S. and Organizations

■ Optimism for the U.S. Economy jumps 11% in Q1

- The percentage of companies optimistic about the US Economy increased from 38% in Q4 2013 to 49% in Q1 2014
- Improved prospects in the employment situation, consumer spending and politics/leadership were cited by the optimists
- Lingering concerns about leadership/politics and healthcare were cited by the pessimists

■ Organizational optimism and expansion plans increase

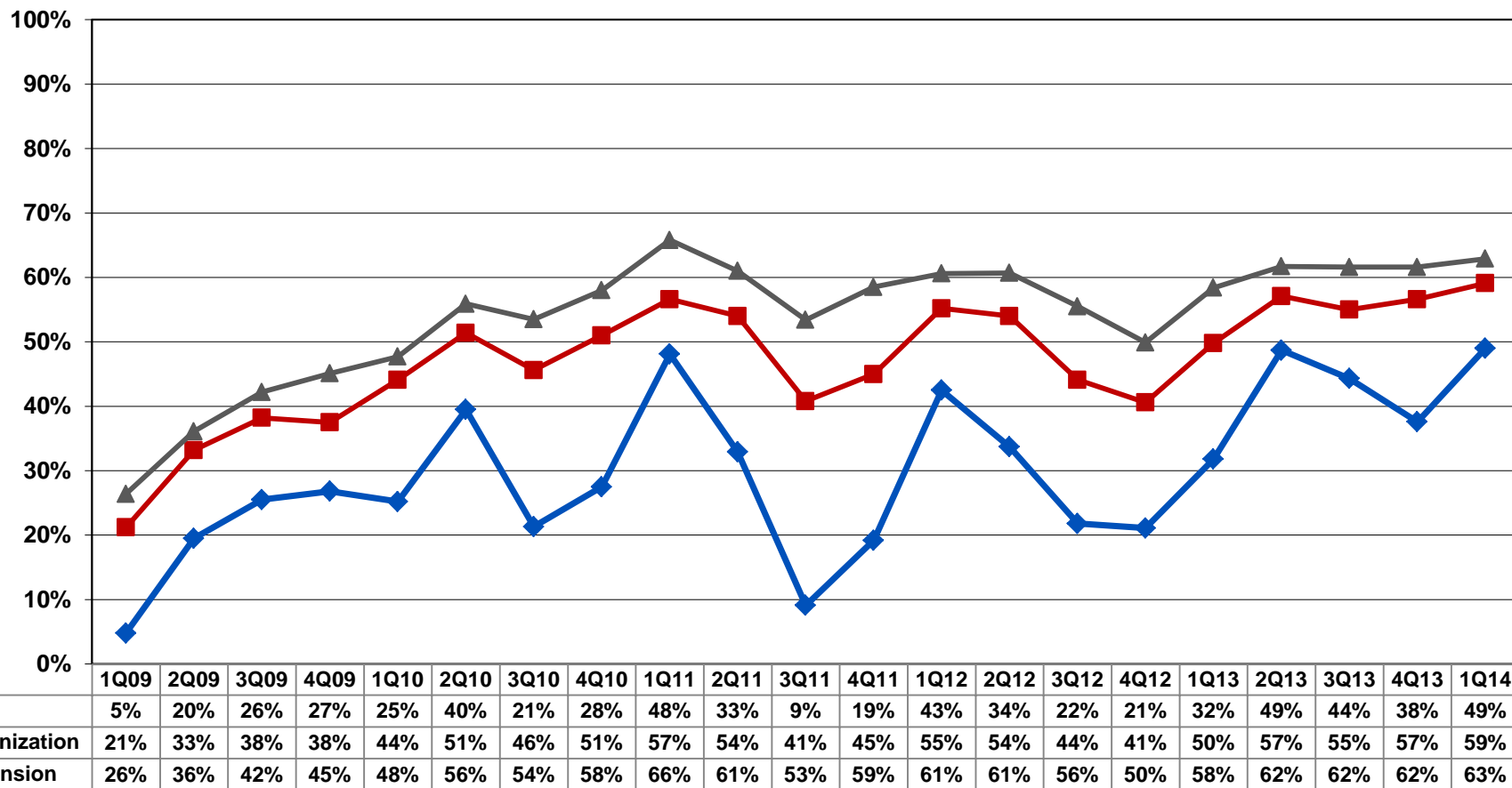
- Optimism about own company prospects increases from 57% in Q4 to 59% in Q1
- The number of companies expecting their business to expand increased slightly to 63%

■ Inflation concerns remain low

- Only 29% are concerned about inflation with labor costs and raw material costs continuing to be the primary concerns
- While concerns about energy costs increased slightly, concerns about energy costs continue at relatively low levels with only 8% of respondents considering that to be the factor representing the most significant risk to their business in Q1

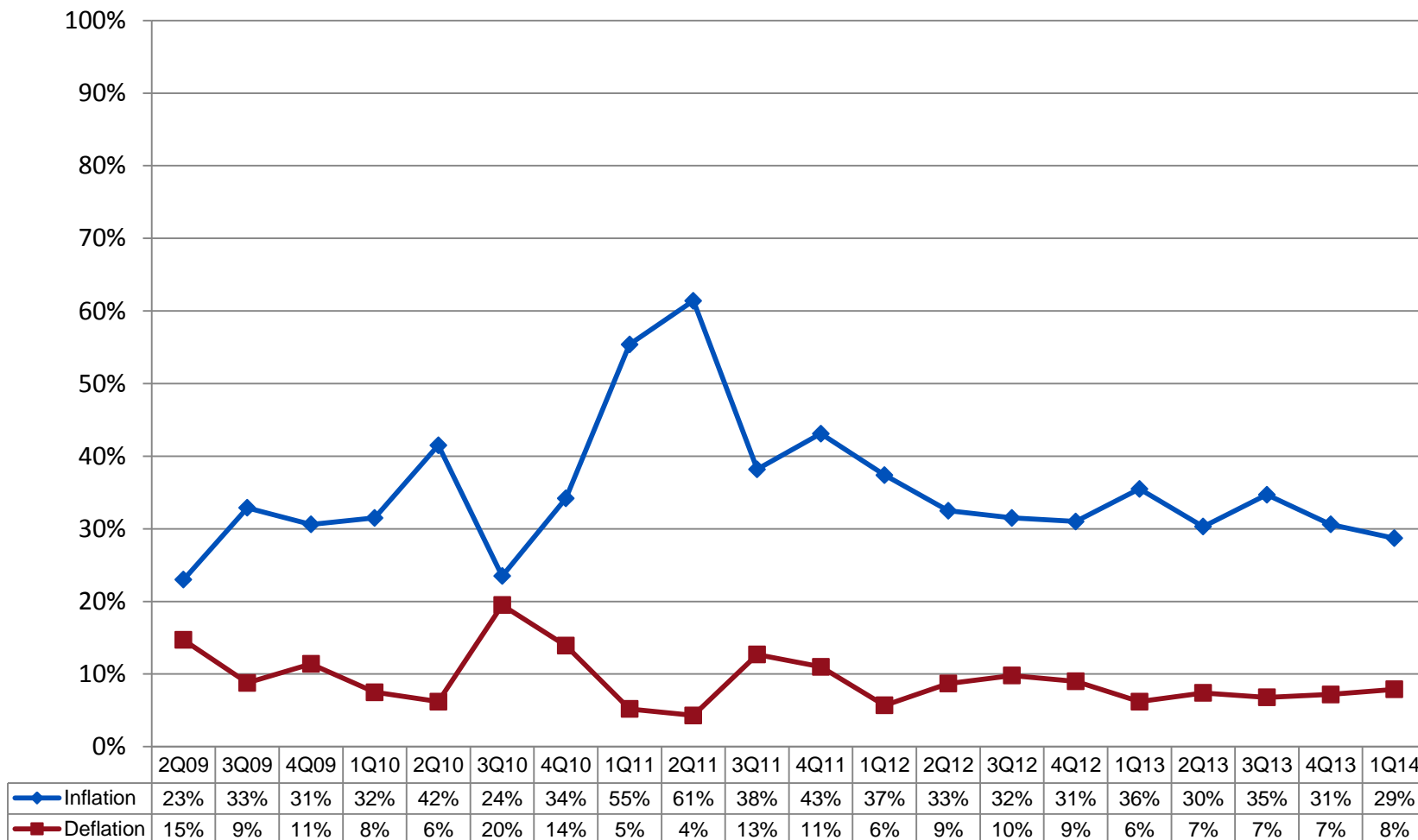
Optimism & Expansion

US, Organization, Expansion



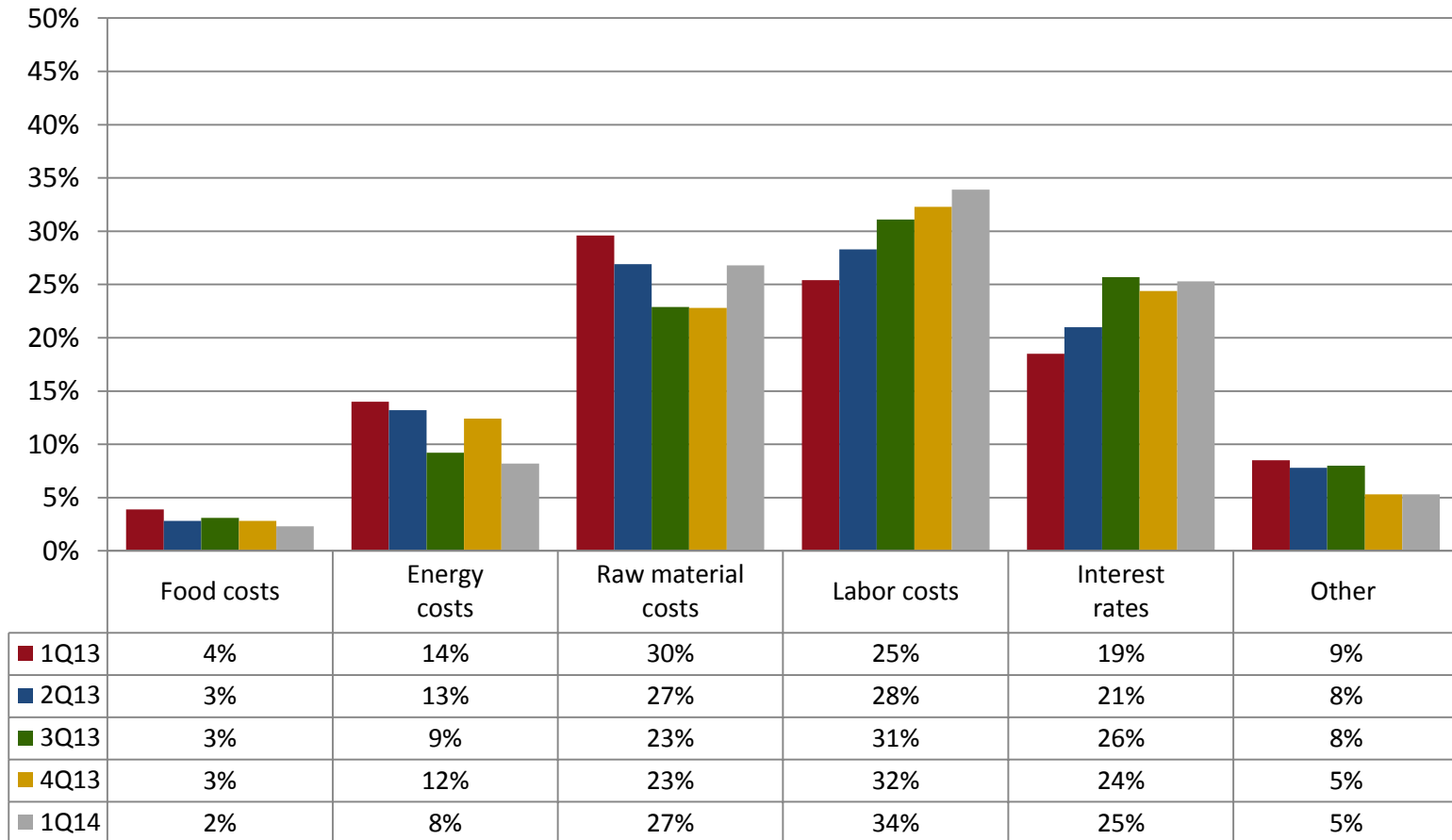
For your business, are you more concerned about inflation or deflation?

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 profit and headcount improved from Q4 2013; revenues remained constant

- Expected revenue increase remains at 3.6% rate; expected profit increase of 2.9% shows continued trend upward
- Headcounts expected to increase by 1.5% over the next year as compared with a projected increase of 1.2% in the 4Q 2013 survey

■ Expectations for healthcare cost increases ease slightly

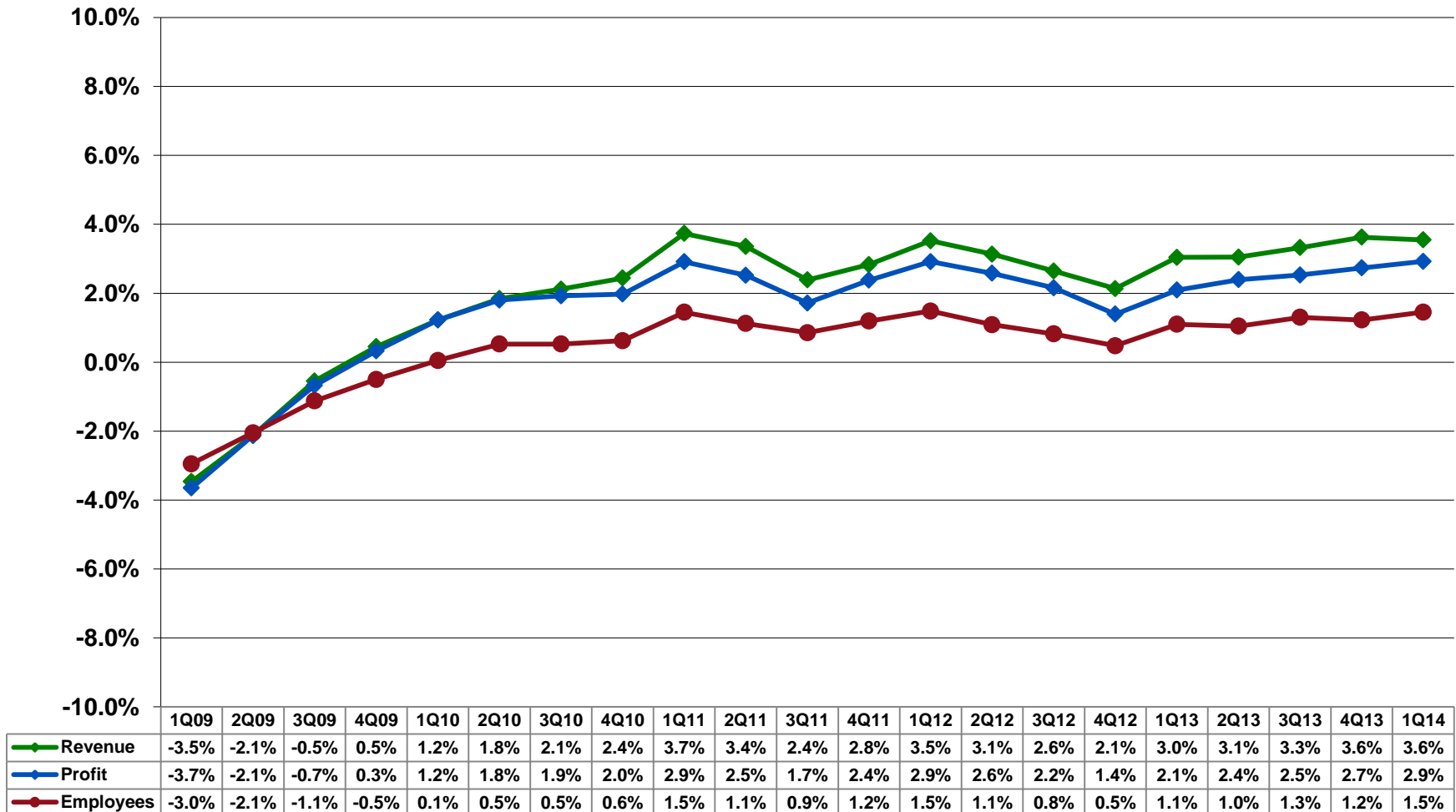
- Prices charged are expected to increase by 1.3%, but continue to lag behind expected increases in input prices and salary and benefit costs of 1.8% and 2.2%, respectively
- Expected increases in healthcare costs eased to 6.2% in Q1 from 6.6% in Q4

■ Key spending plans reach new highs

- Increased spending for IT continues to be the strongest category of spending, improving in Q1 to 3.2%, a new post-recession high
- Other capital spending improved to a new high rate of 2.3%
- Expected increase in training spending also improved to a new high rate of 1.7%
- Marketing spending and R&D spending increases remained relatively constant at 1.7% and 1.0%, respectively

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

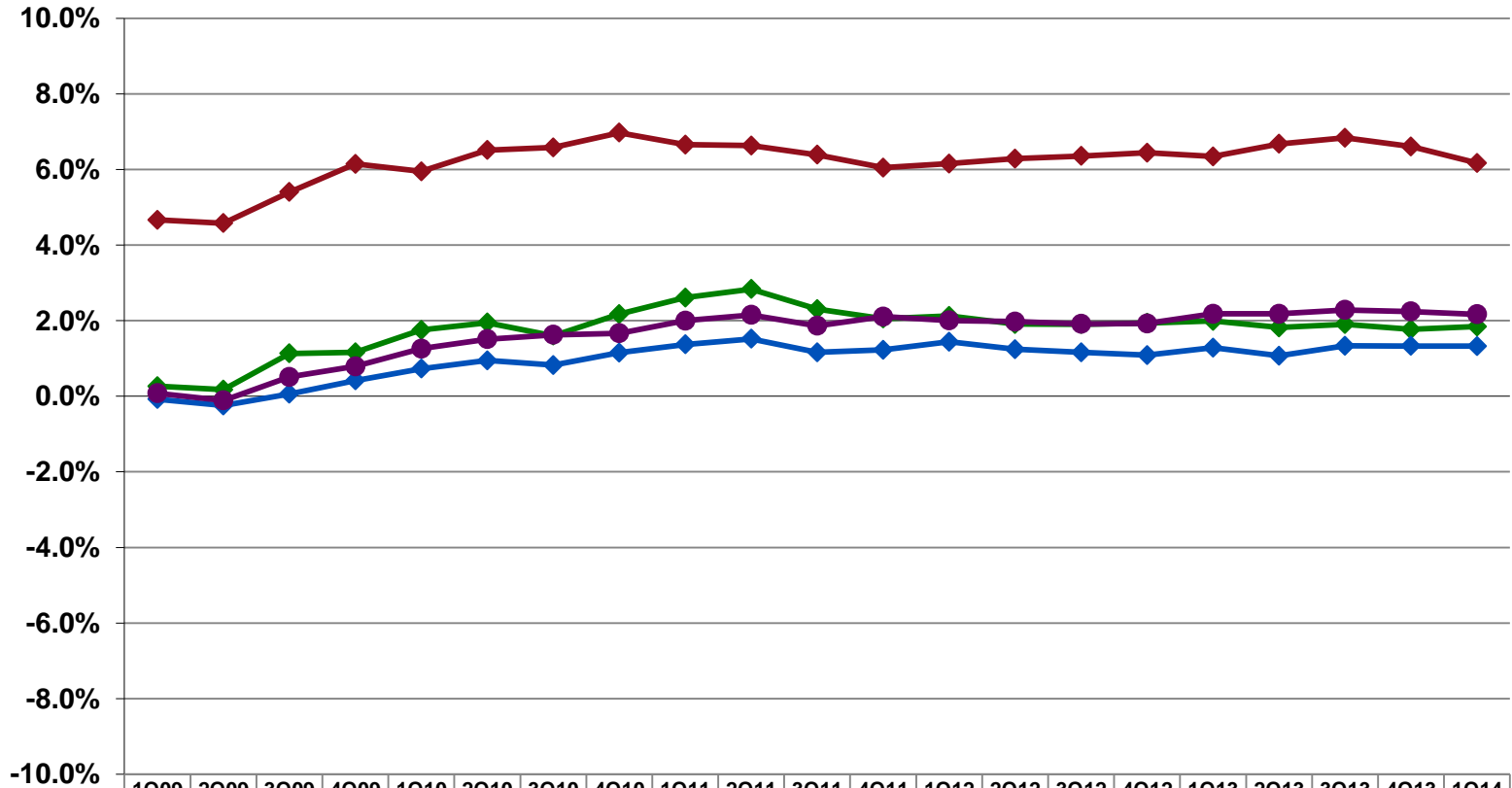
Thinking about the coming 12 months, please comment on the probable change for your organization for ...



Pricing & Costs

Average Change Expected

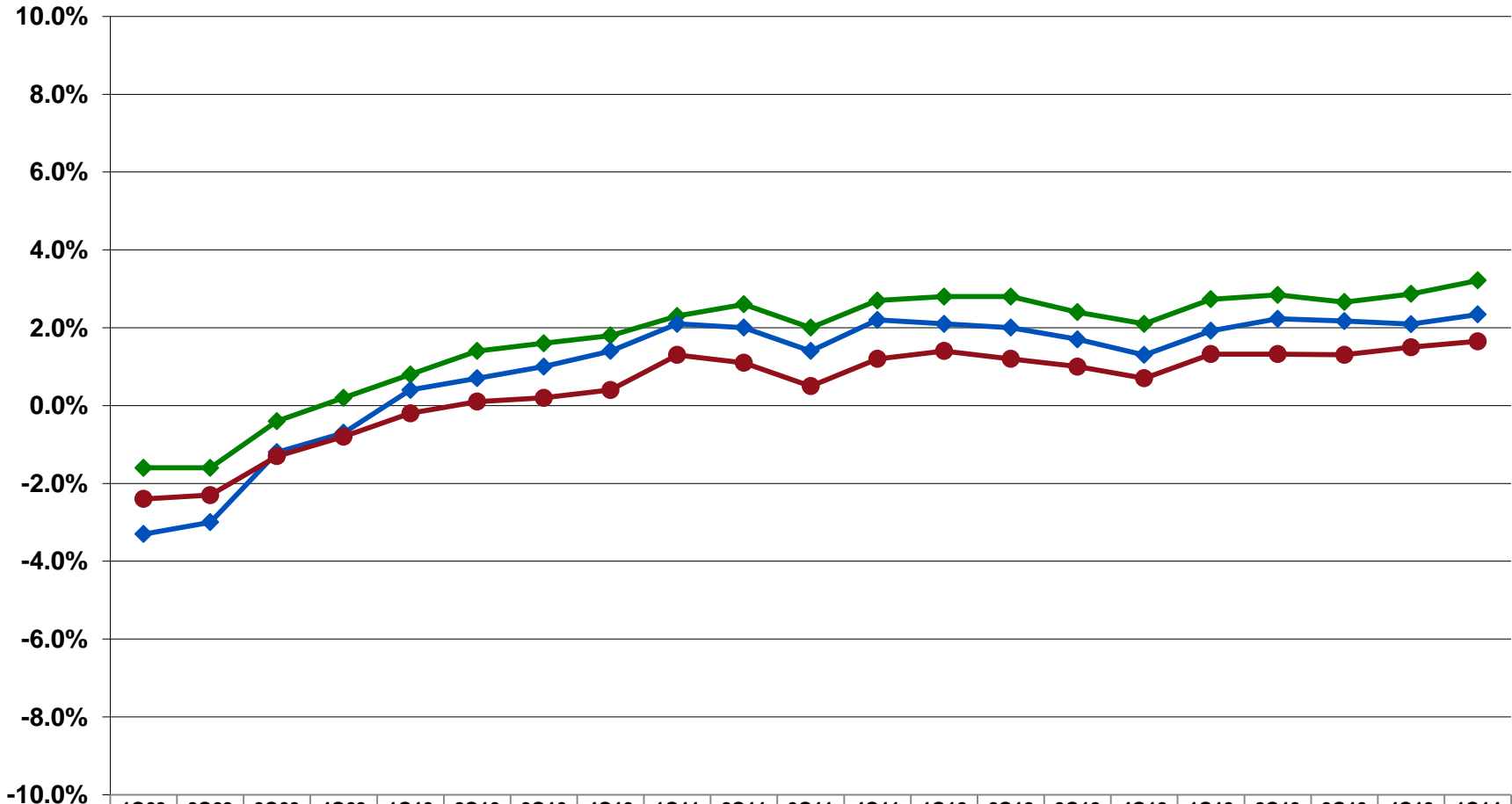
Thinking about the coming 12 months, please comment on the probable change for your organization ...



	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Input Prices	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%	1.8%	1.9%	1.8%	1.8%
Prices Charged	-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%	1.1%	1.3%	1.3%	1.3%
Salary & Benefits	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%	2.2%	2.2%	2.3%	2.2%	2.2%
Healthcare	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%	6.7%	6.8%	6.6%	6.2%

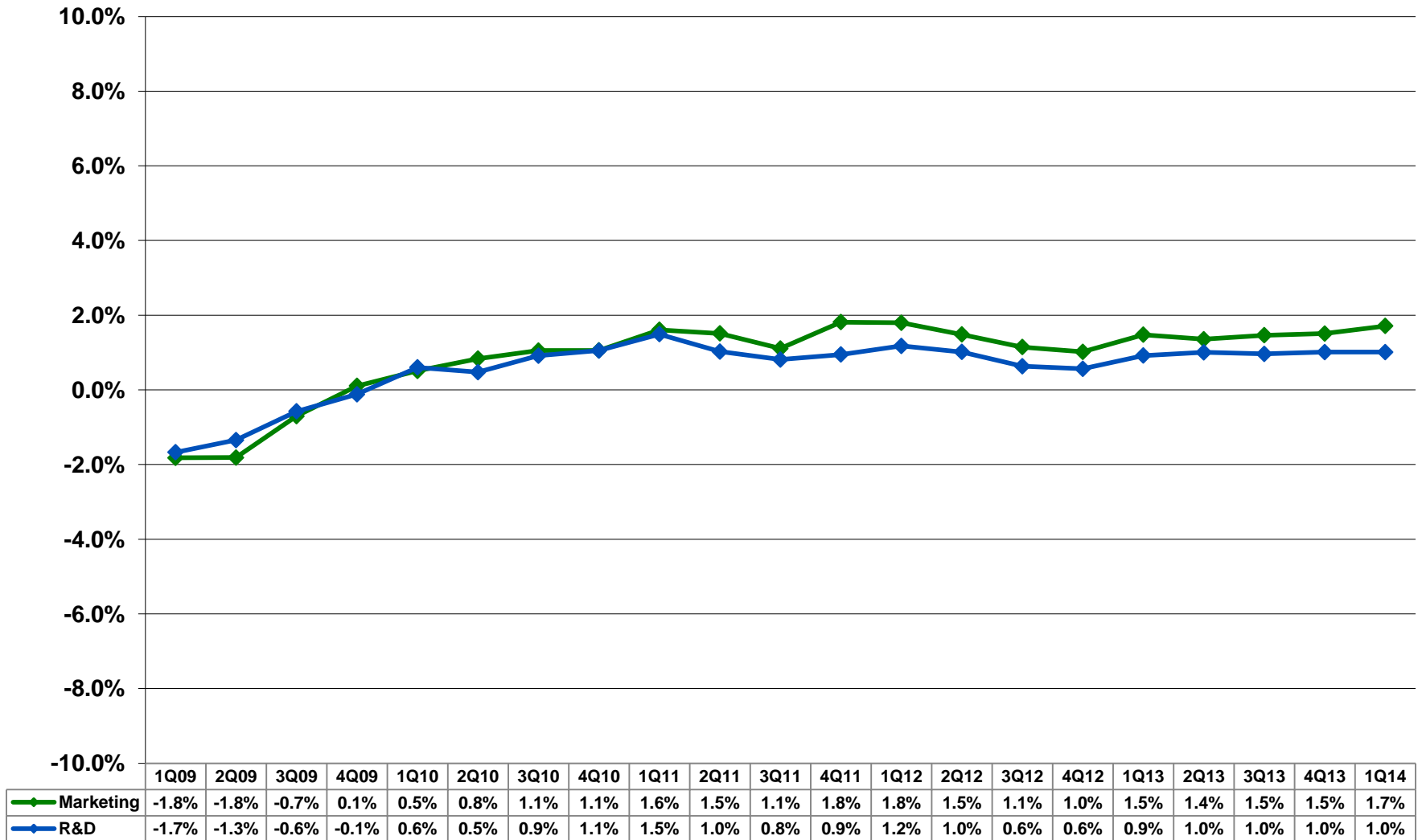
Spending Plans IT, Other Capital & Training

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 soften slightly in Q1 2014

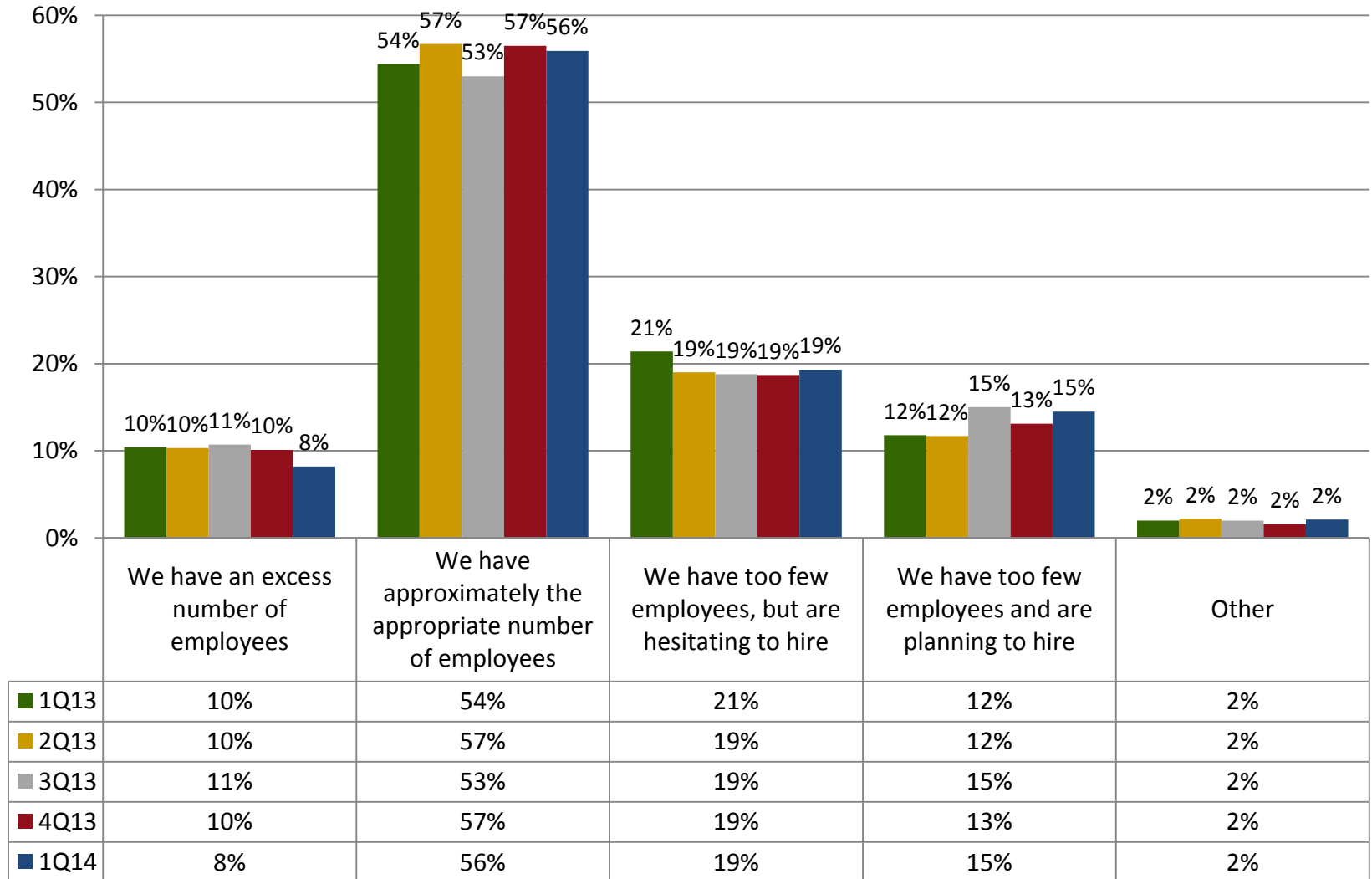
- Slightly more than half of all companies (56%) say they have the right number of employees
- In Q1 2014 only 8% say they have too many employees, relatively consistent with recent quarters
- Roughly a third (34%) have too few employees
 - The percent of companies reluctant to hire holds below 20% for a fourth straight quarter
 - However, the number of companies with too few employees that are planning to hire increased from 13% in Q3 to 15% in Q1 2014

■ A majority of companies with hiring plans are targeting full-time employees (75%)

- 23% will hire both full-time and part-time or temporary workers
- 2% will hire primarily part-time or temporary workers

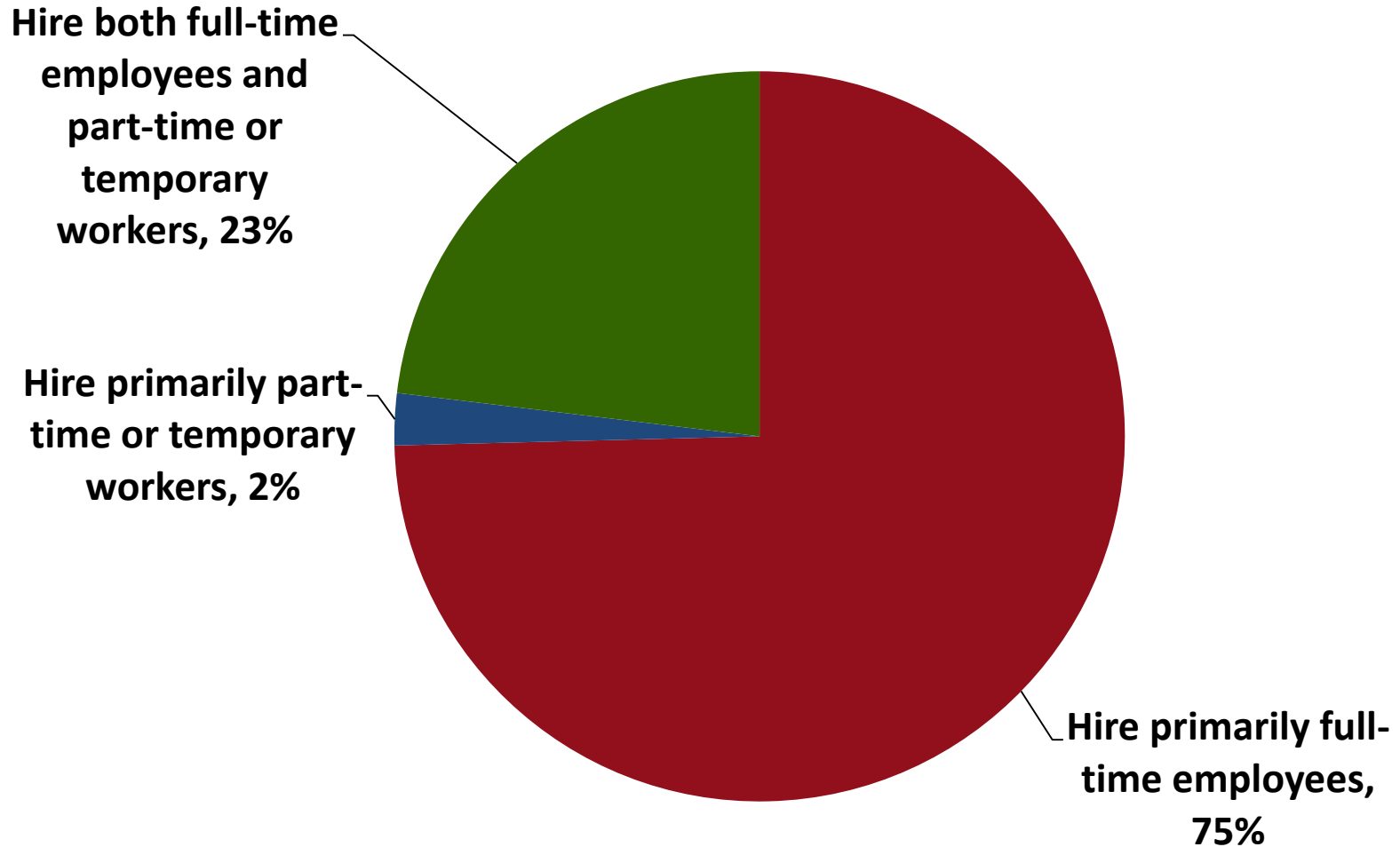
Overall staff situation relative to your needs

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)?



Overall hiring plans

For those with plans to hire...
Our hiring plans will be to hire:
(select one)



Liquidity

Liquidity

■ Liquidity and capital plans also soften in 4Q

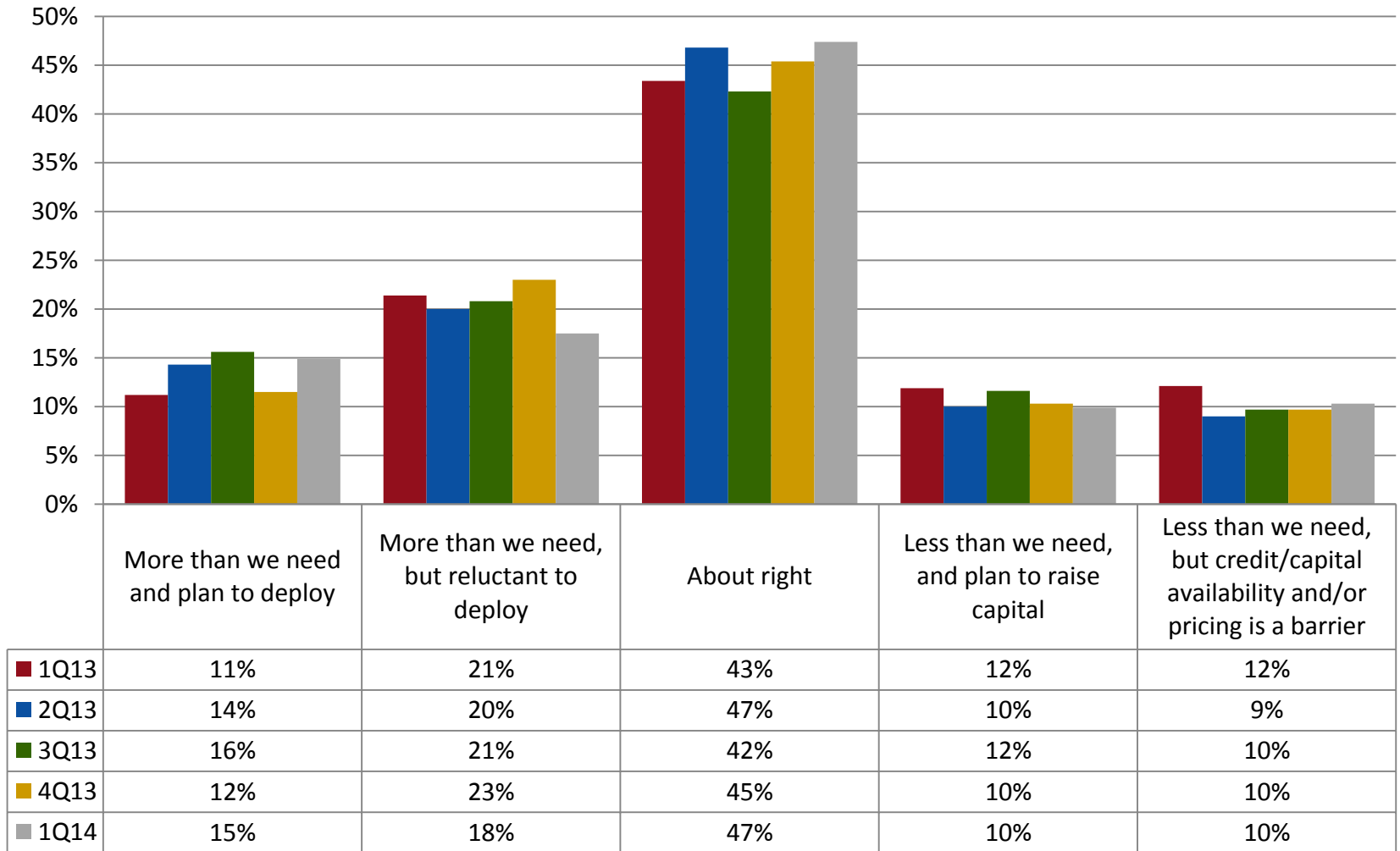
- The number of companies indicating they had about the right amount of liquidity increased from 45% to 47% in 1Q 2014
- The number indicating they had more than they needed and plan to deploy the excess increased from 12% to 15%;
- The number indicating reluctance to deploy their excess fell, from 23% to 18%

■ Overall respondents expect credit availability to be essentially unchanged

- The number of companies planning to raise needed capital remained constant from quarter to quarter at 10%
- Overall, the number of companies expecting it to be more difficult to get necessary financing increased from 9% at 4Q 2013 to 12% in 1Q 2014
- However, 10% of small businesses anticipate that obtaining credit will be more difficult in the next quarter; only 5% of the very large business also feel that way.

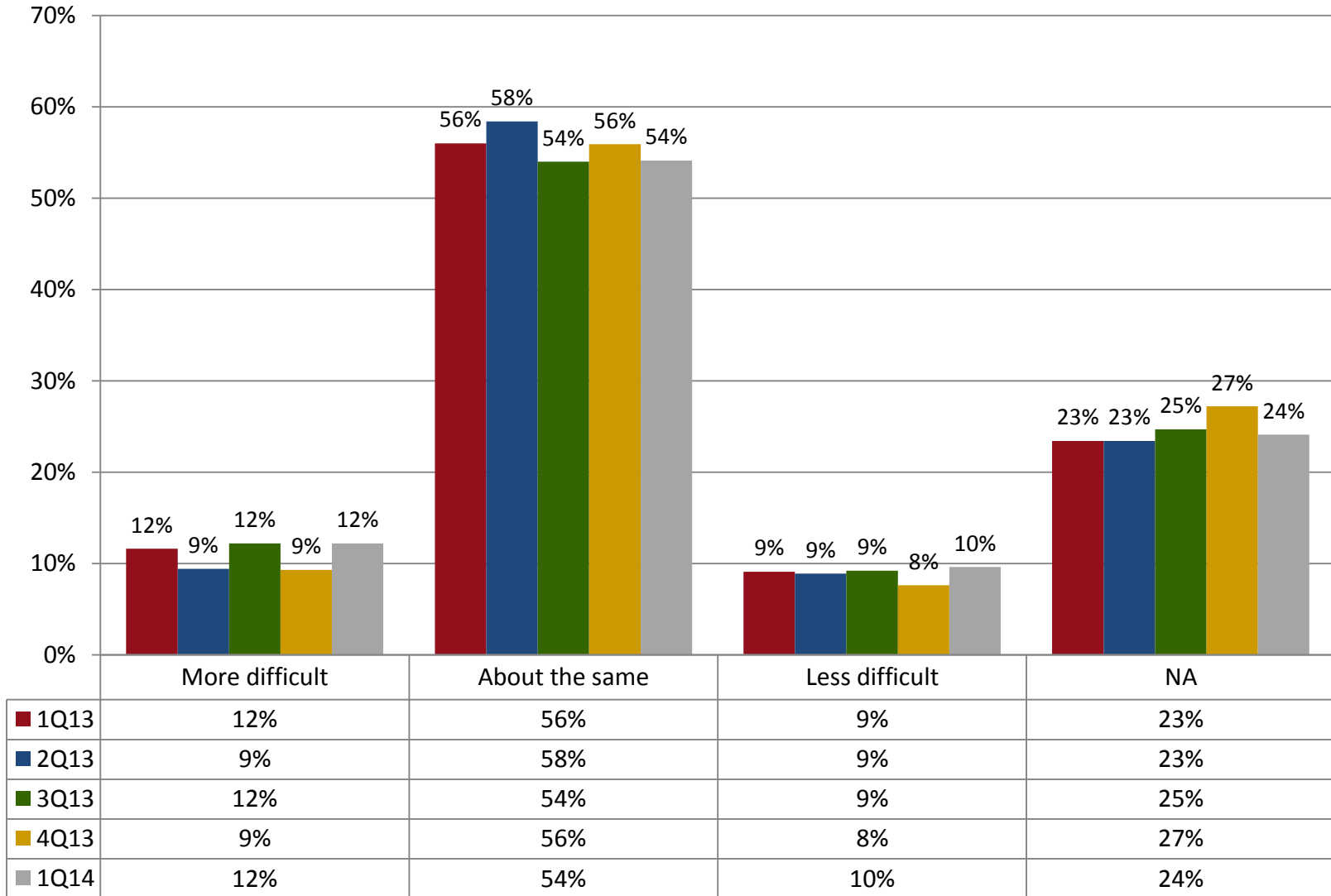
Cash & Liquidity Position

How would you characterize your organization's current liquidity position



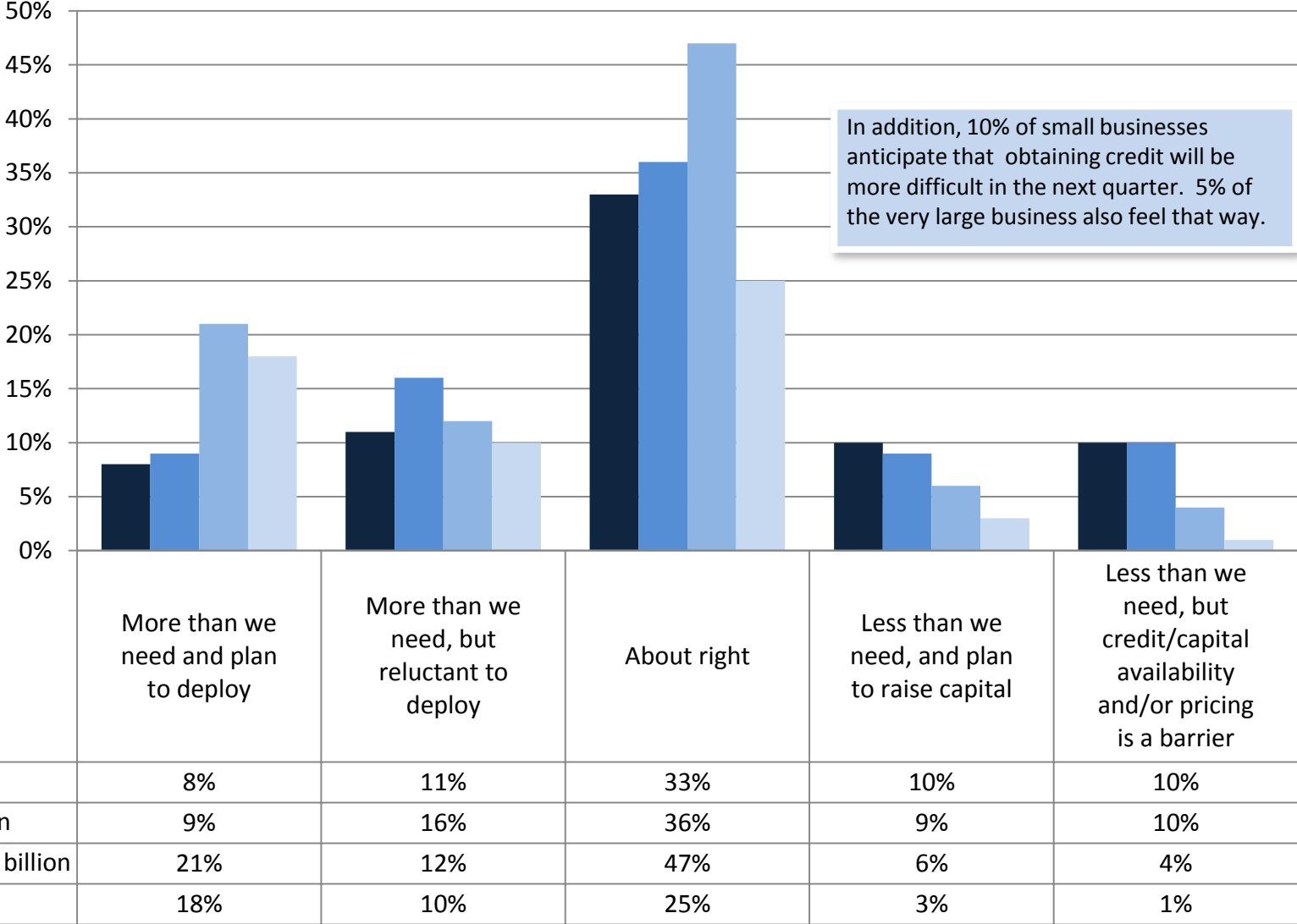
Difficulty Obtaining Required Financing

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

- Regulatory requirements/changes maintain their top ranking among organizational challenges
- Employee and benefit costs and domestic economic conditions also maintain #2 and #3, respectively
- Availability of skilled personnel advances from #6 to #4 spot
- Domestic competition maintains #5
- Domestic political leadership drops to #6 after a jump to #4 last quarter
- Developing new products/services returns to #7, switching places with stagnant/declining markets which moved from #7 to #8
- Changing customer preferences remains at #9 position
- Materials, supplies and equipment costs remains at #10

Top Challenges for Organizations

Please indicate the top three challenges for your organization

	1Q13	2Q13	3Q13	4Q13	1Q14
1	Domestic economic conditions	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes
2	Regulatory requirements/changes	Domestic economic conditions	Domestic economic conditions	Employee and benefits costs	Employee and benefits costs
3	Employee and benefits costs	Employee and benefits costs	Employee and benefits costs	Domestic economic conditions	Domestic economic conditions
4	Domestic political leadership	Domestic competition	Domestic competition	Domestic political leadership	Availability of skilled personnel
5	Domestic competition	Domestic economic conditions	Domestic political leadership	Domestic competition	Domestic competition
6	Stagnant/declining markets	Availability of skilled personnel	Availability of skilled personnel	Availability of skilled personnel	Domestic political leadership
7	Availability of skilled personnel	Stagnant/declining markets	Developing new products/services/markets	Stagnant/declining markets	Developing new products/services/markets
8	Developing new products/services/markets	Developing new products/services/markets	Stagnant/declining markets	Developing new products/services/markets	Stagnant/declining markets
9	Global economic conditions	Changing customer preferences	Changing customer preferences	Changing customer preferences	Changing customer preferences
10	Materials/supplies/equipment costs	Global economic conditions	Global economic conditions	Materials/supplies/equipment costs	Materials/supplies/equipment costs

Outlook by

Industry, Region and Business Size

Industry, Region and Business-size Outlook - 1 of 2

■ Optimism improves in many sectors

- Technology maintained its spot as the most optimistic sector, with 80% of respondents optimistic, increasing from 69% in 4Q 2013
- Construction also shows improved optimism from 67% to 73%, while manufacturing remained unchanged at 66%
- Finance and insurance rebounded to 71% in 1Q 2014, after falling to 56% in 4Q 2013; real estate also rebounded from 55% to 64%; however, while hiring plans for the next 12 months improved in finance, they softened in real estate
- Professional services also improved significantly from 53% in 4Q 2013 to 62% in 1Q 2014;
- Retail trade improved from 52% to 59% optimistic; however, the wholesale trade sector continues to lag with only 48% of wholesale trade respondents being optimistic, falling from 56% in 4Q 2013
- Healthcare—other (43%), along with healthcare providers (34%), continue to be least optimistic

Industry, Region and Business-size Outlook - 2 of 2

■ Expected hiring by sector over the coming 12 months also improved in most sectors:

- Technology hiring continues to be strong, but declined slightly to 2.9% after jumping significantly to 3.6% in 4Q 2013
- Professional services took over the top spot in 1Q 2014, now expecting to increase staffing at a 3.0% rate, compared to only 1.6% in 4Q 2013
- Retail trade and finance and insurance are both showing significant increases from 1.3% to 2.5% and from 1.4% to 2.2%, respectively
- Both construction and manufacturing are showing improved hiring forecasts as well, with construction improving from 2.2% to 2.8%, and manufacturing from 1.8% to 2.1%

■ West and Northeast regions show strong improvement

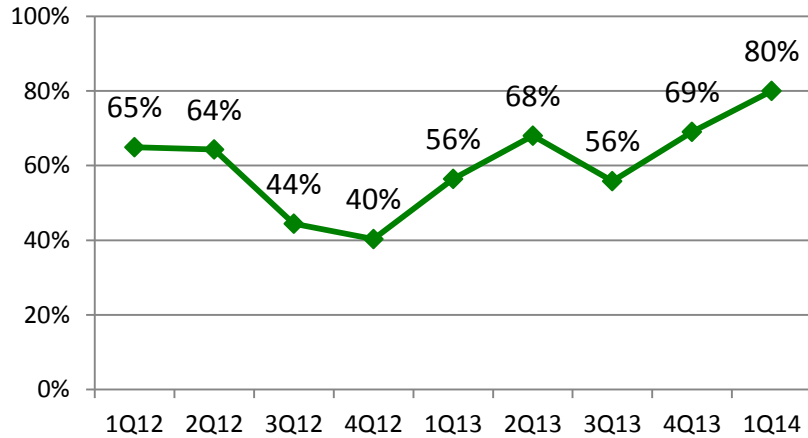
- Optimism increased to 63% from 55% in the Northeast and to 70% from 57% in the West
- However, both Midwest at 55% and South at 53% remain essentially unchanged

■ Expansion plans among 100 mil to <1bn companies rebound to 71%

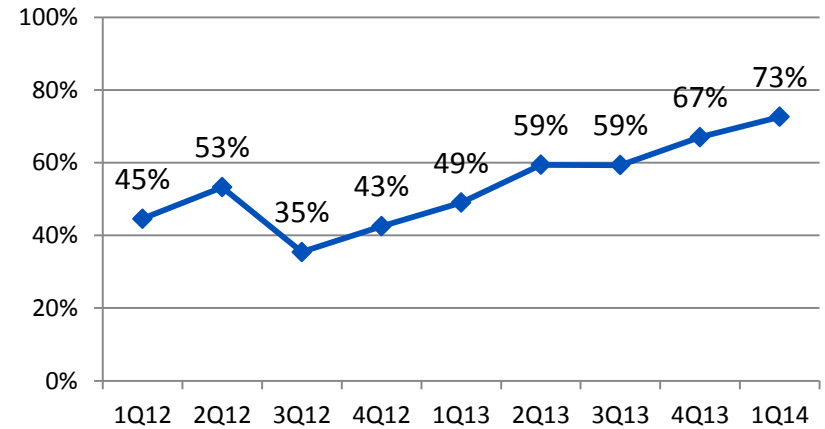
- 69% of companies with revenues > \$1 billion also now expect to expand
- However, only 62% of companies in the \$10 to %100 million range and 56% of companies with revenues < \$10 million expect to expand over the next 12 months

Organization Optimism by Industry

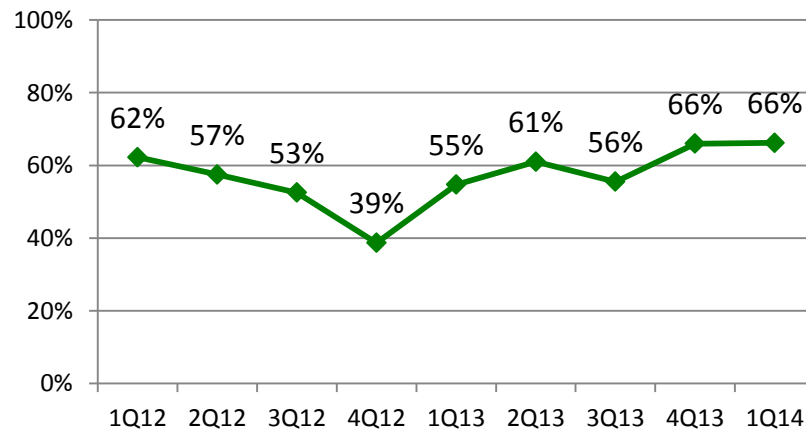
Technology



Construction

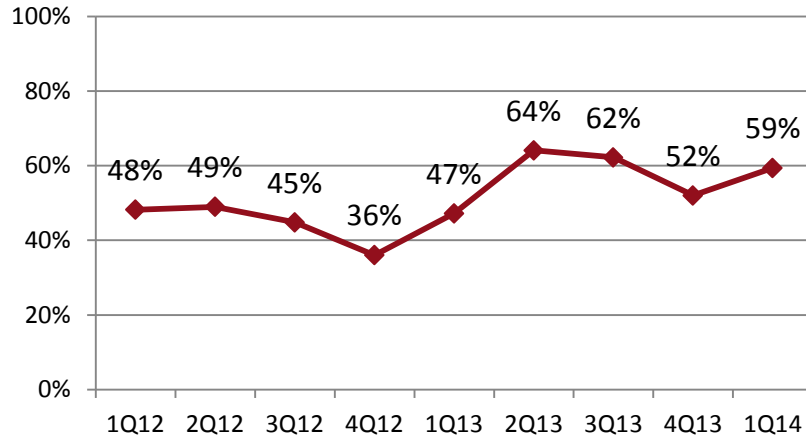


Manufacturing

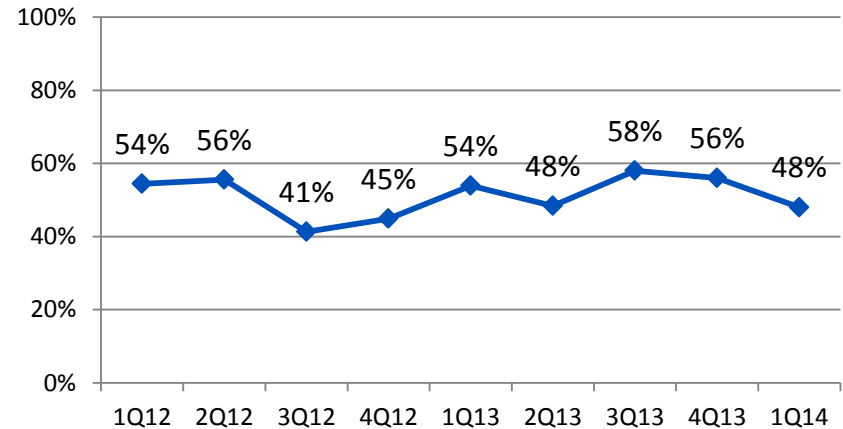


Organization Optimism by Industry

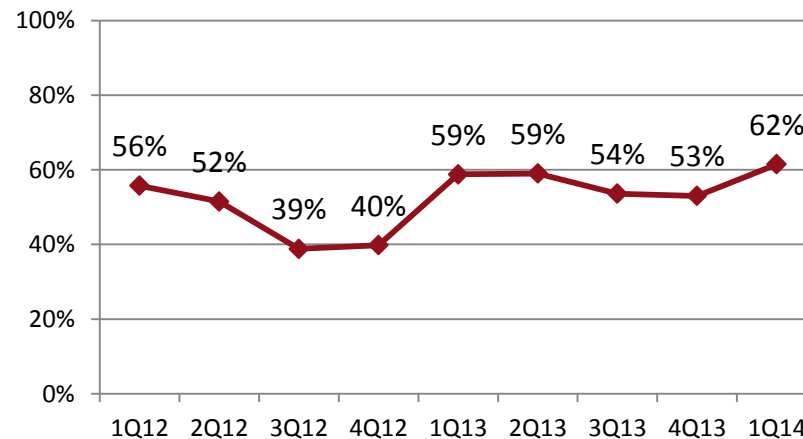
Retail Trade



Wholesale Trade

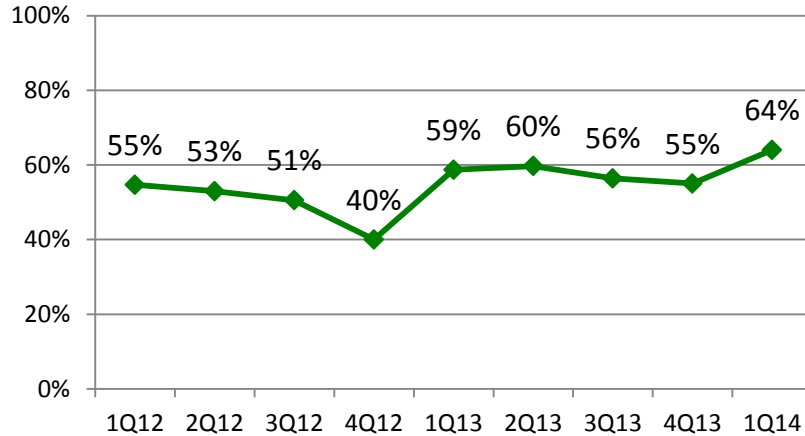


Professional Service

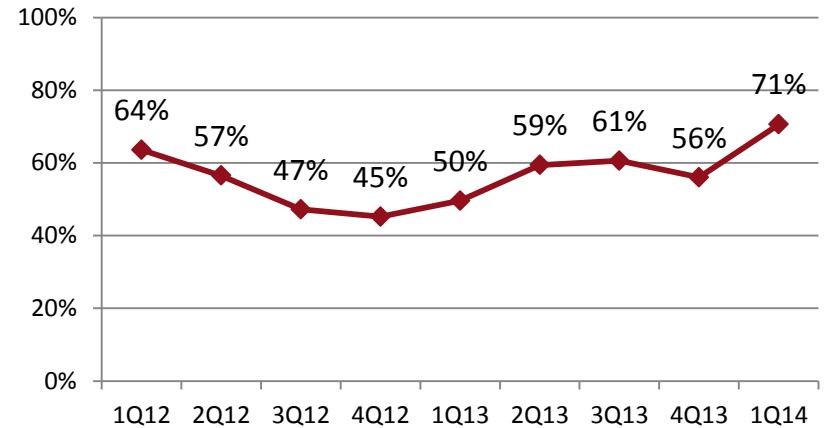


Organization Optimism by Industry

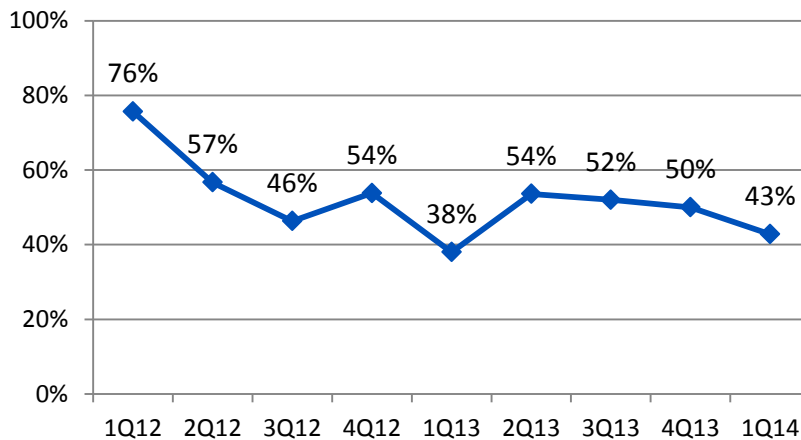
Real Estate



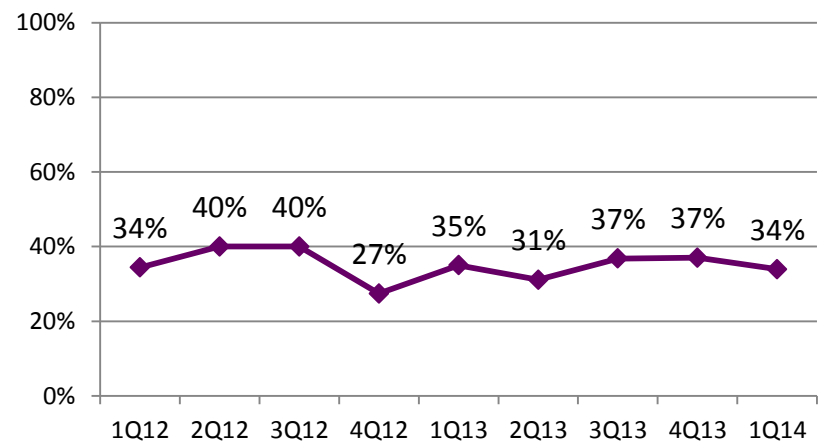
Finance & Insurance



Health Care Other

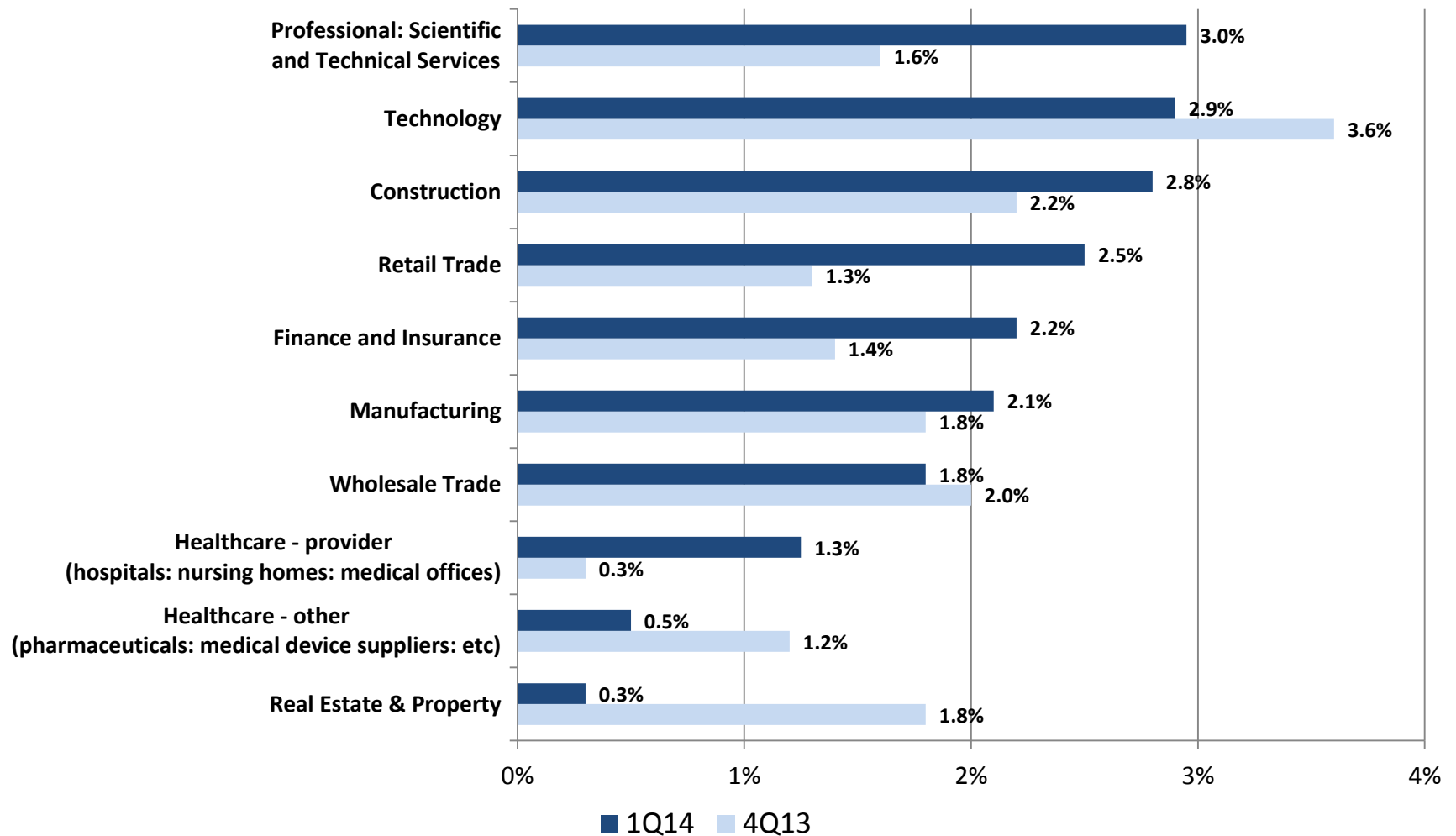


Health Care Provider



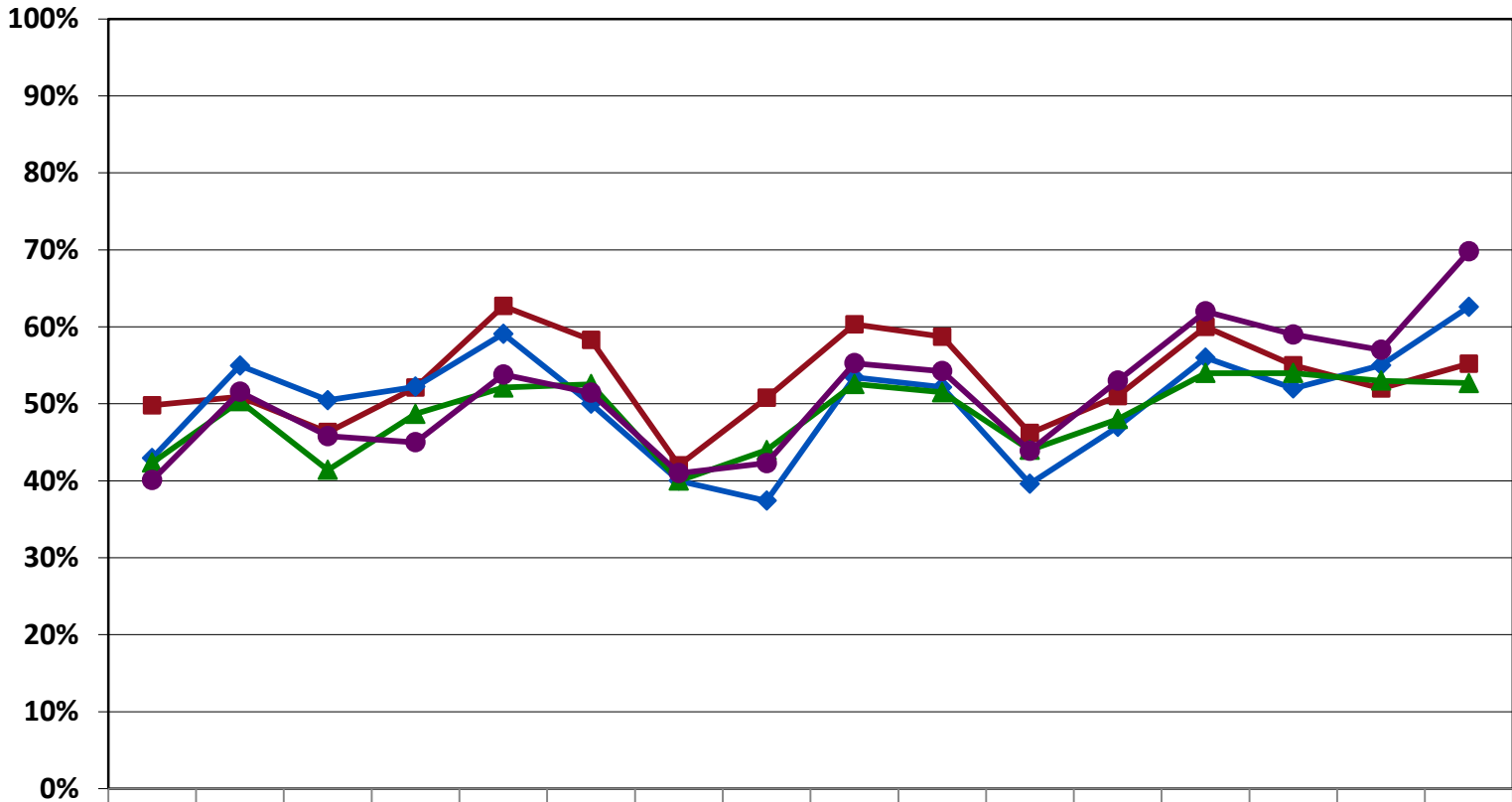
Expected Employment Change by industry

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



Organization Optimism by Region

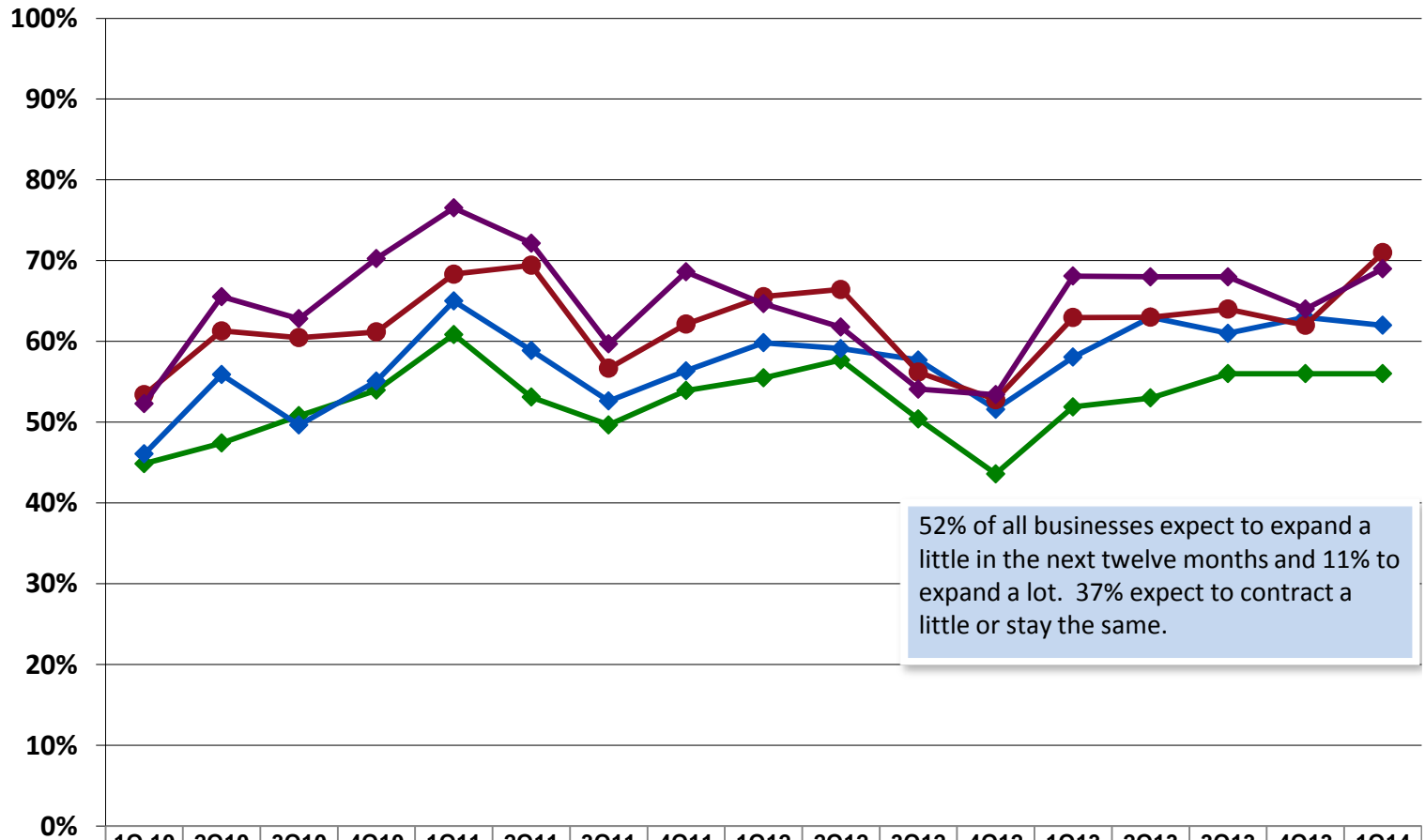
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months.



	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	1Q13	2Q13	3Q13	4Q13	1Q14
—■— Midwest	50%	51%	46%	52%	63%	58%	42%	51%	60%	59%	46%	51%	60%	55%	52%	55%
—◆— Northeast	43%	55%	50%	52%	59%	50%	40%	37%	53%	52%	40%	47%	56%	52%	55%	63%
—▲— South	42%	50%	41%	49%	52%	53%	40%	44%	53%	51%	44%	48%	54%	54%	53%	53%
—●— West	40%	52%	46%	45%	54%	51%	41%	42%	55%	54%	44%	53%	62%	59%	57%	70%

Expansion Plans by Business Size

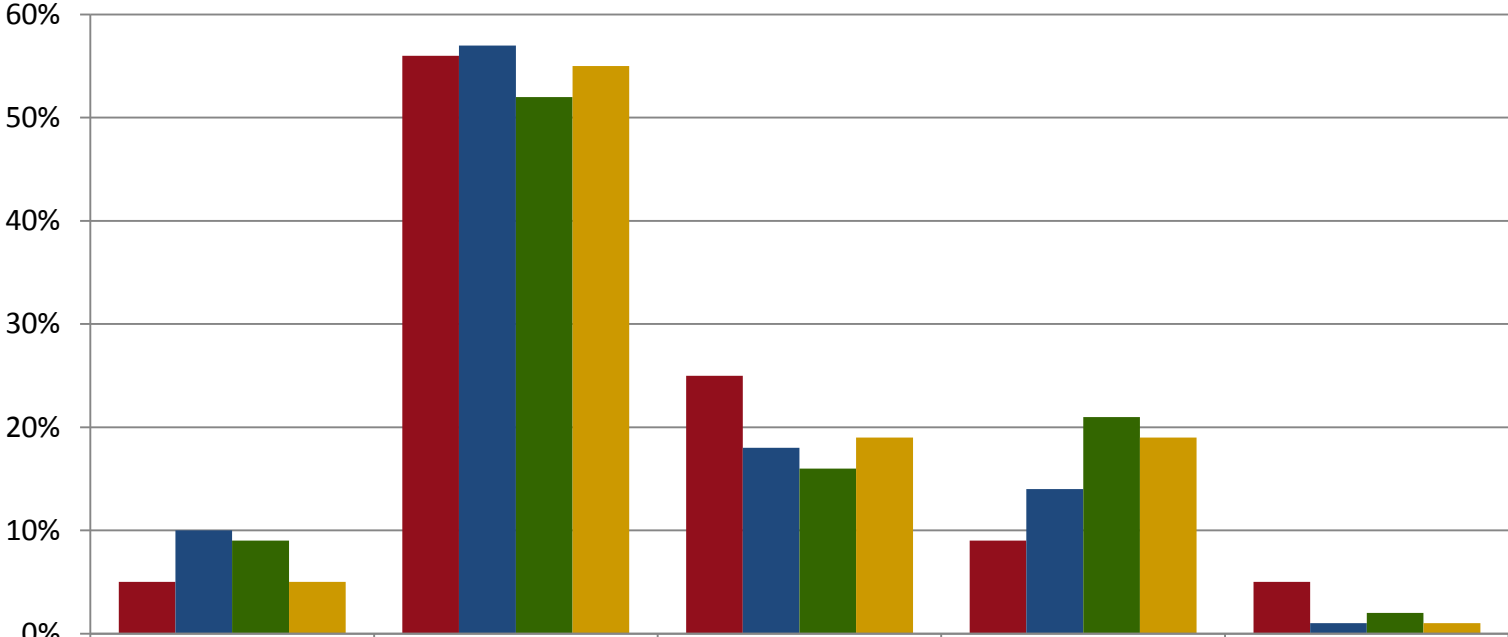
Please indicate whether you expect your business to expand or contract over the next 12 months



	1Q 10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
◆ < \$10 million	45%	47%	51%	54%	61%	53%	50%	54%	55%	58%	50%	44%	52%	53%	56%	56%	56%
◆ \$10 to <\$100 million	46%	56%	50%	55%	65%	59%	53%	56%	60%	59%	58%	52%	58%	63%	61%	63%	62%
◆ \$100 million to <\$1 billion	53%	61%	60%	61%	68%	69%	57%	62%	66%	66%	56%	53%	63%	63%	64%	62%	71%
◆ > \$1 billion	52%	66%	63%	70%	77%	72%	60%	69%	65%	62%	54%	53%	68%	68%	68%	64%	69%

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	5%	56%	25%	9%	5%
■ \$10 to <\$100 million	10%	57%	18%	14%	1%
■ \$100 million to <\$1 billion	9%	52%	16%	21%	2%
■ > \$1 billion	5%	55%	19%	19%	1%

Survey within a Survey

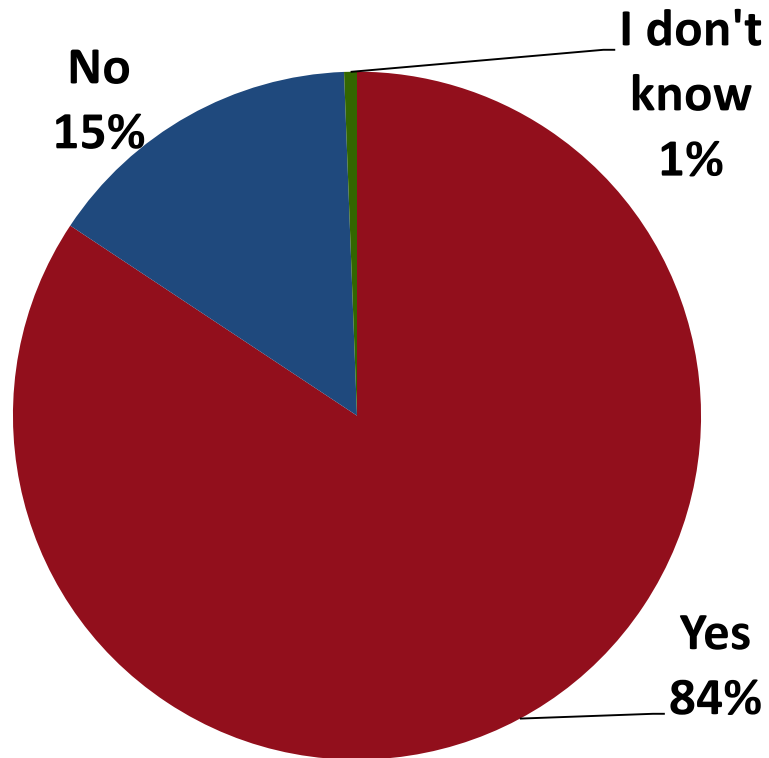
Each quarter this survey asks questions on a special topic in order to better understand the views and actions of AICPA members. This quarter the “survey within a survey” focused on the incentive compensation plans of companies.

Bonuses and Incentives

- **Majority (84%) of companies have historically given bonuses or incentives to employees**
 - 15% have not given bonuses or incentives to their employees
- **During the economic downturn 74% of companies continued to give bonuses or incentives**
 - 23% did not continue
 - 2% did not know
- **69% of companies will give bonuses or incentives to employees this year**
 - 19% will not give bonuses or incentives
 - 12% do not know
- **Majority (76%) of companies will give a cash bonus or incentive this year**
 - 17% will not give bonuses or incentives this year
 - 8% will give restricted shares while 7% will give stock options
 - 6% will give comp time

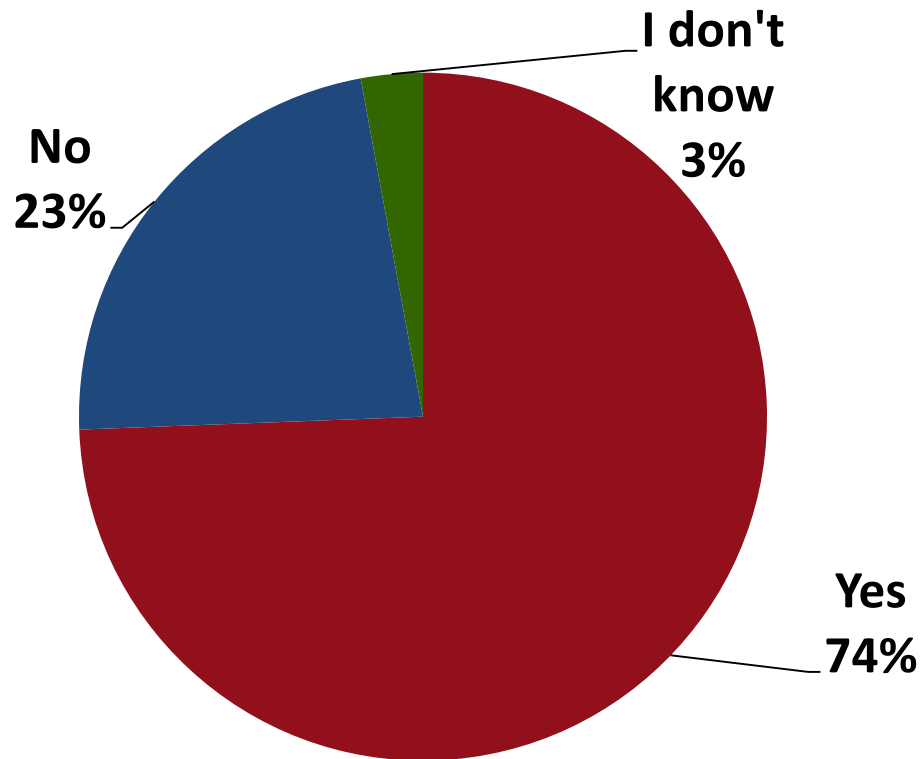
Bonuses and Incentives

Has your organization historically given bonuses or incentives to employees?



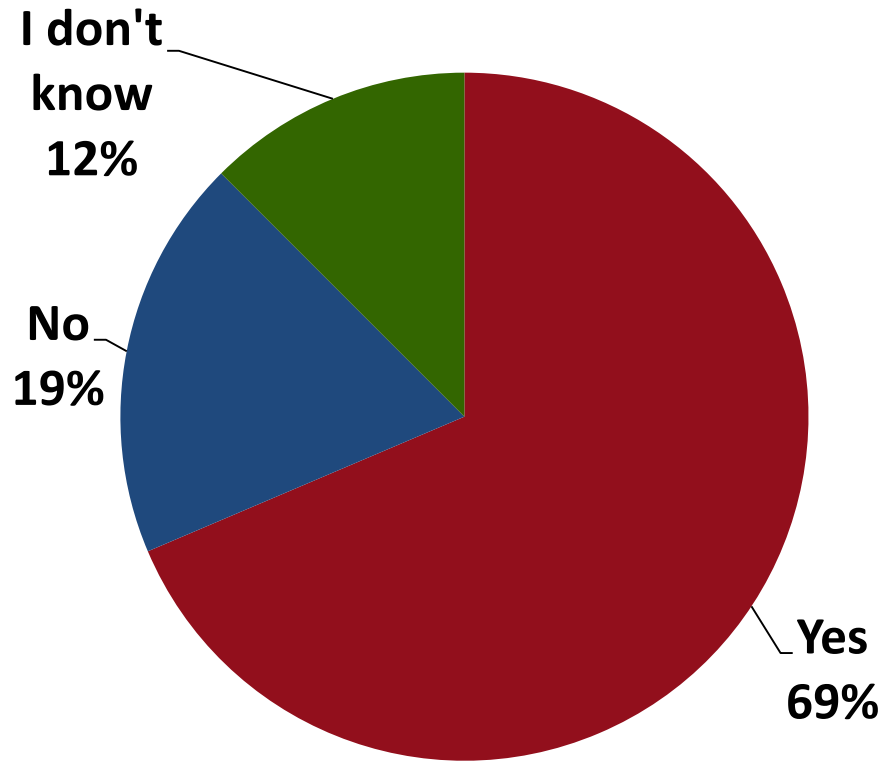
Bonuses and Incentives

Did you continue that practice during the economic downturn?



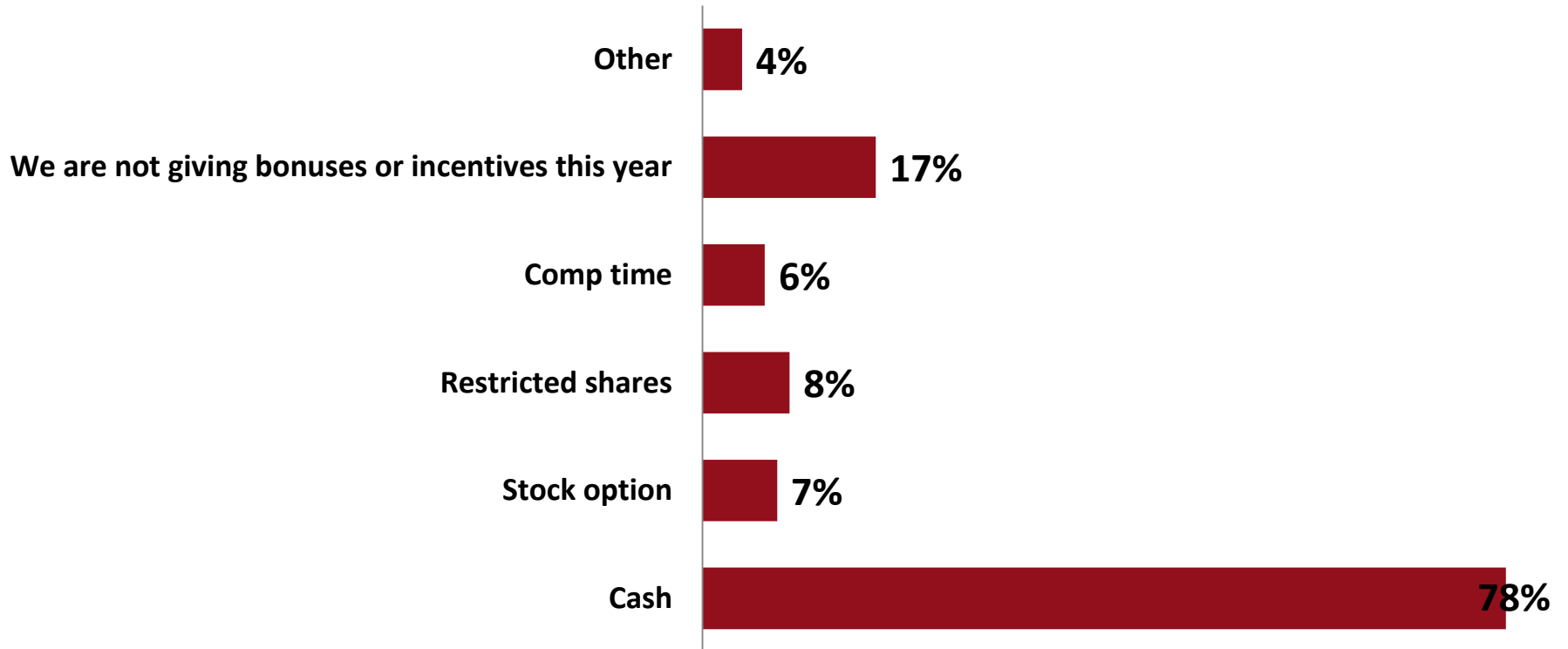
Bonuses and Incentives

Will you give bonuses or incentives this year?



Bonuses and Incentives

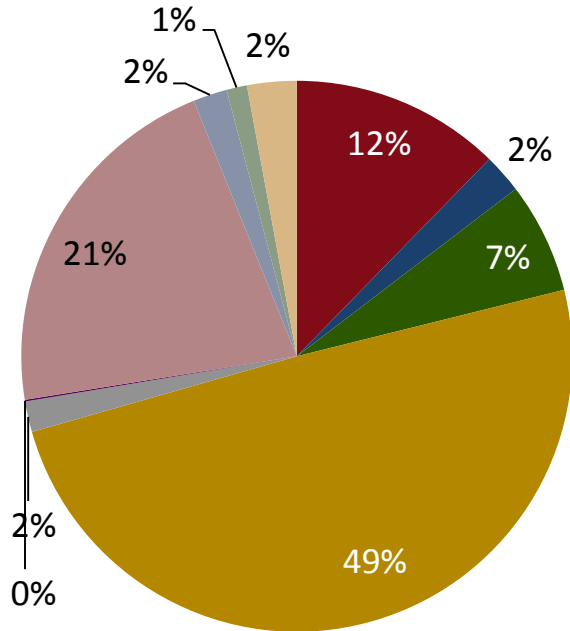
Which incentives or bonuses will you give this year?



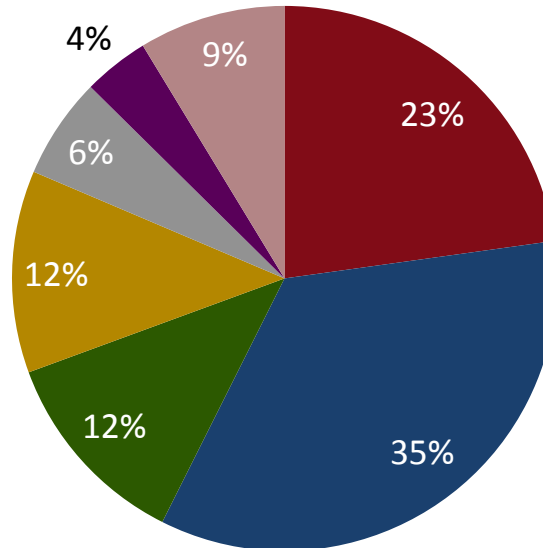
Demographics

Demographics

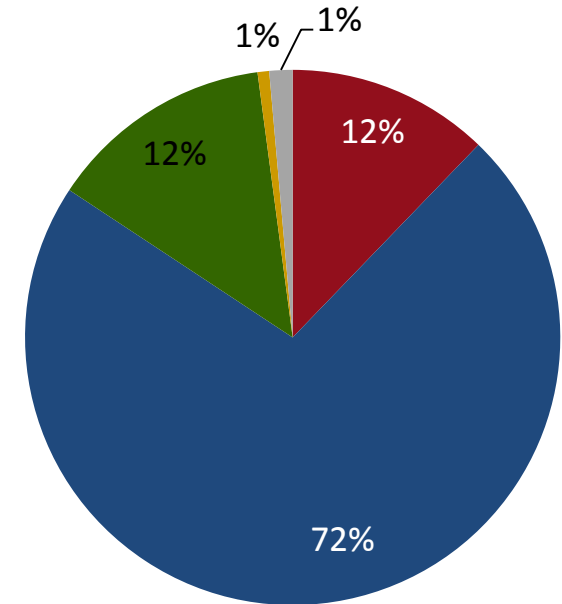
Position



Size of Organization



Type of Organization



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

- \$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

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



AICPA
Business and Industry
Economic Outlook Survey
1Q 2014

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