AICPA Business & Industry U.S. Economic Outlook Survey 2Q 2013

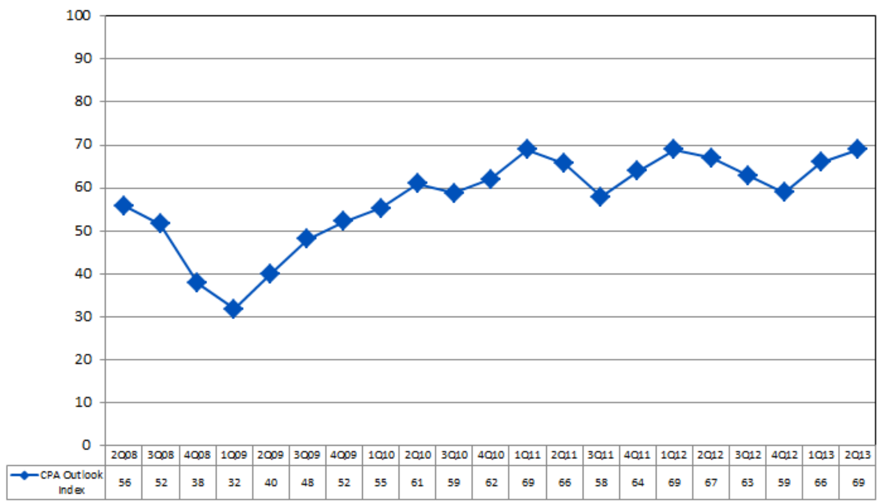
The CPA Outlook Index

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 - ↑ 03

The CPA Outlook Index (CPAOI) improved to a reading of 69 for the second quarter of 2013, an improvement of 3 points from the first quarter of 2013, and matching the second quarter 2011 reading of 69. The last time a 2Q improvement over 1Q improvement occurred was in 2010.

All components of the index showed improvement over Q1 2013, with a significant spike in the US Economic Optimism component which is at a reading of 66 despite continued concerns about current fiscal policy issues and soft employment accompanying the economic recovery.



Component	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	61	54	41	36	50	66	↑16	↑12
Organization Optimism	72	70	64	61	67	72	↑05	↑02
Expansion Plans	74	72	69	64	70	72	↑02	↓ 00
Revenue	76	74	72	68	72	74	↑02	↓ 00
Profits	69	69	66	60	65	67	↑02	↓ 02
Employment	64	62	59	55	61	62	↑01	↓ 00
IT Spending	75	74	72	69	74	75	↑ 01	↓ 01
Other Capital Spending	67	67	64	61	66	67	↑01	↓ 00
Training & Development	66	65	62	59	65	66	↑ 01	↑ 01
Total CPAOI	69	67	63	59	66	69	↑03	↑ 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

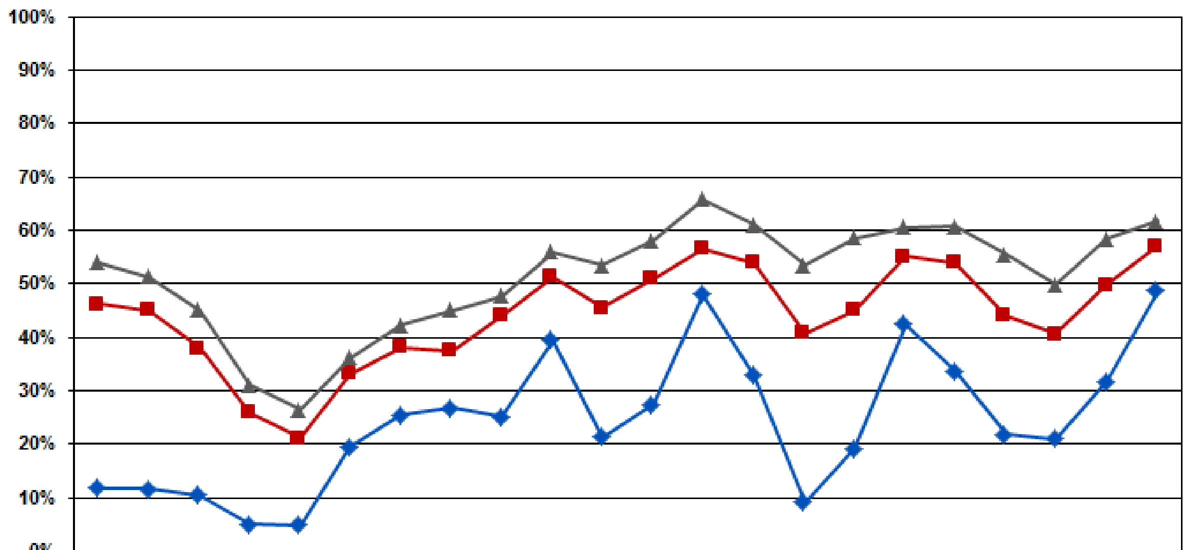
Business optimism and expansion plans improve sharply, marking highest reading since 1Q 2007

After concerns surrounding the fiscal cliff at 4Q 2012 were not realized in their entirety, the number of respondents who were pessimistic about the US economy continues to decline to 17% in 2Q 2013 down from 31% in 1Q 2013.

While many expressed concerns this quarter about gridlock, lack of leadership in Washington, continued unemployment or low employment levels and national debt/deficit issues, the previously high degree of pessimism has abated to a certain extent. The number of respondents who are optimistic about the US economy rose sharply from 32% in 1Q 2013 to 49% in 2Q 2013, marking the highest reading since 1Q 207 Further, the number of pessimists has declined to 17%, 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 continue to recover somewhat from weak levels of the second half of 2012. In the second quarter, 57% of respondents are now saying they are optimistic about their own businesses, up from 50% at Q1 2013, and 62% are planning to expand over the coming year, up from 58% looking to expand at Q4.

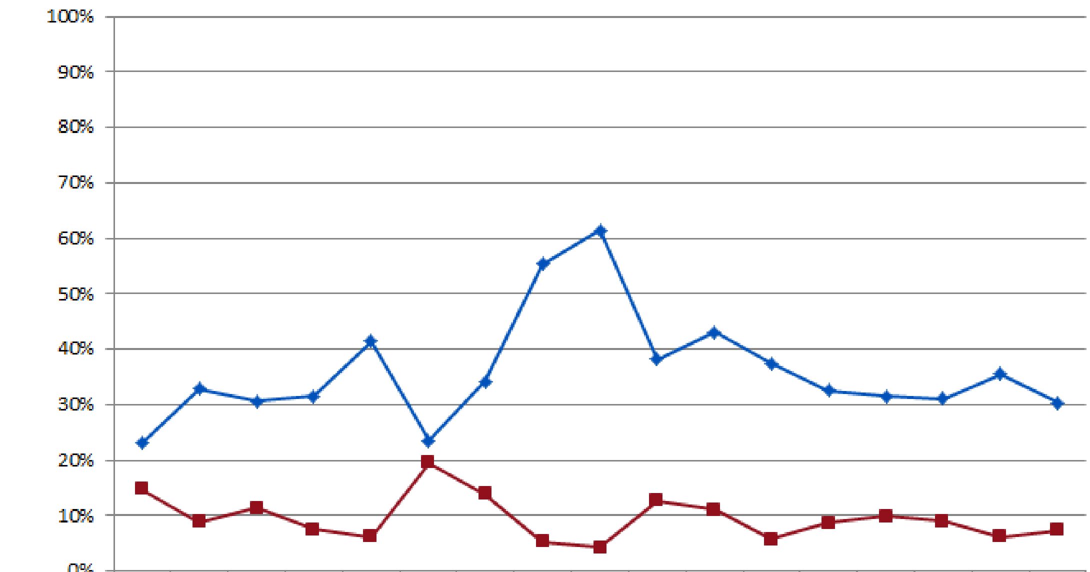
Outlook for the US Economy, Organizations & Expansion



	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
US	12%	12%	11%	5%	5%	20%	26%	27%	25%	40%	21%	28%	48%	33%	9%	19%	43%	34%	22%	21%	32%	49%
Organization	46%	45%	38%	26%	21%	33%	38%	38%	44%	51%	46%	51%	57%	54%	41%	45%	55%	54%	44%	41%	50%	57%
Expansion	54%	51%	45%	31%	26%	36%	42%	45%	48%	56%	54%	58%	66%	61%	53%	59%	61%	61%	56%	50%	58%	62%

Concerns about inflation remained reduced marginally this quarter – 30% of CPA respondents are concerned about the prospects for inflation over the next six months, slightly down from 36% in Q1, while only 7% were concerned about deflation.

Respondents who were concerned about inflation were most likely to identify labor costs as the primary concern followed by raw material costs. A number of respondents cited interest rates as a concern.



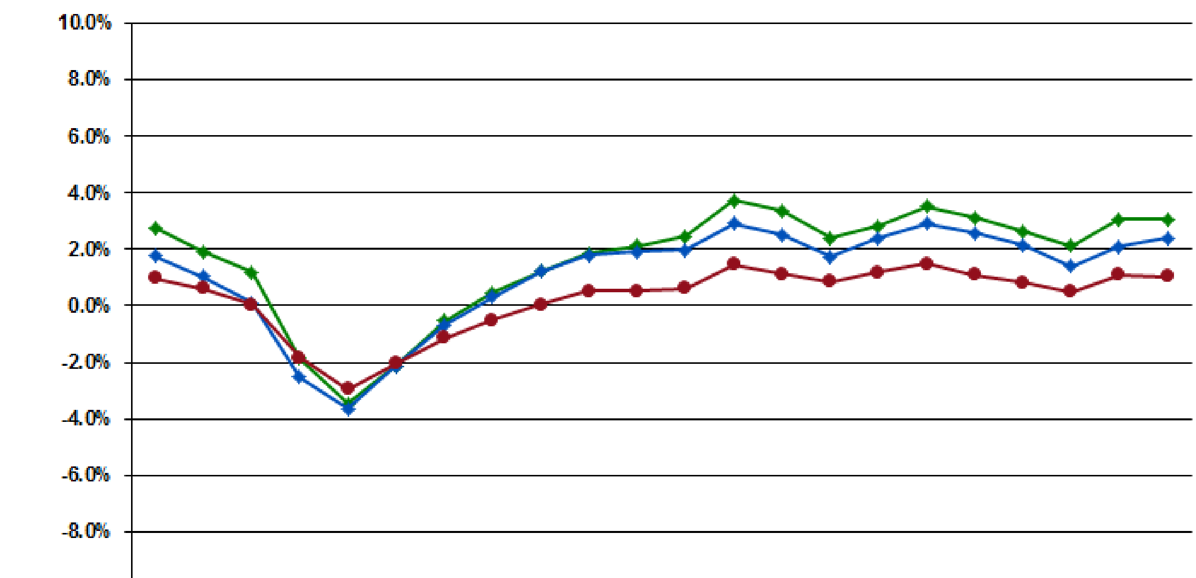
	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
Inflation	23%	33%	31%	32%	42%	24%	34%	55%	61%	38%	43%	37%	33%	32%	31%	36%	30%
Deflation	15%	9%	11%	8%	6%	20%	14%	5%	4%	13%	11%	6%	9%	10%	9%	6%	7%

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 and continue the rebound in 2Q 2013. Revenues are currently expected to increase at a 3.1% rate, profits at 2.4% and headcounts at 1.0%.

Expectations for Revenue, Profits and Staffing



	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
Revenue	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%	3.1%	2.6%	2.1%	3.0%	3.1%
Profit	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%	2.6%	2.2%	1.4%	2.1%	2.4%
Employees	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%	1.1%	0.8%	0.5%	1.1%	1.0%

Respondents’ expectations for prices continue essentially unchanged. Prices paid are expected to increase by 1.8% over the next twelve months while prices charged are only anticipated to increase by 1.1%. Expectations for salary increases remain at 2.2% from the previous quarter. Expectations for healthcare cost increased overall. Prices charged have increased from 0.2% to 1.3% . Expected increases in healthcare costs jumped from 6.3% in 1Q to 6.7% in 2Q.

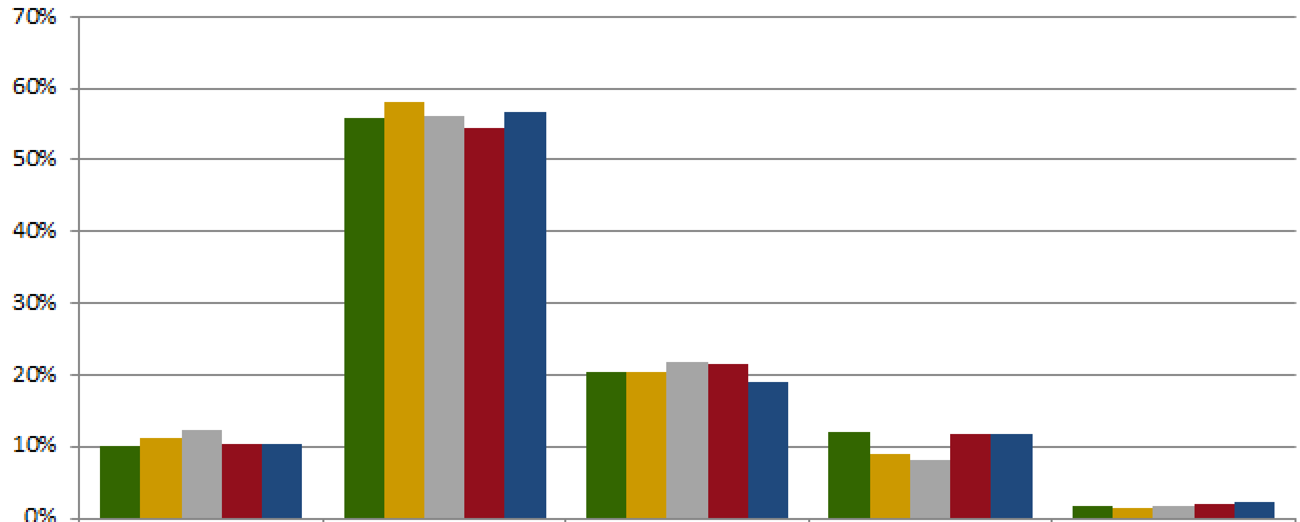
Spending plans remain constant after 1Q 2013 improvements. IT spending is expected to increase 2.8% over the course of the next twelve months, which is up from 2.7% last quarter. Spending on other capital also bounced back from 1.9% to 2.2%. Training spending remained unchanged at a 1.3% rate. R & D spending is scheduled to increase at 1.0%

Hiring Plans

Hiring plans show slight improvement; percent of companies reluctant to hire falls

Slightly more than half of all companies (57%) continue to say they have the right number of employees and only 10% say they have too many, which remains stable from the 1Q level of 10%. Consistent with the pattern in 2012, 31% say they have too few employees. Of those that need employees 12% say they are planning to hire consistent with 1Q. However, the remaining 19% say that while they have too few employees, they are hesitating to hire.

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
2Q12	10%	56%	21%	12%	2%
3Q12	11%	58%	21%	9%	2%
4Q12	12%	56%	22%	8%	2%
1Q13	10%	54%	21%	12%	2%
2Q13	10%	57%	19%	12%	2%

Industry, Region and Business Size Outlook

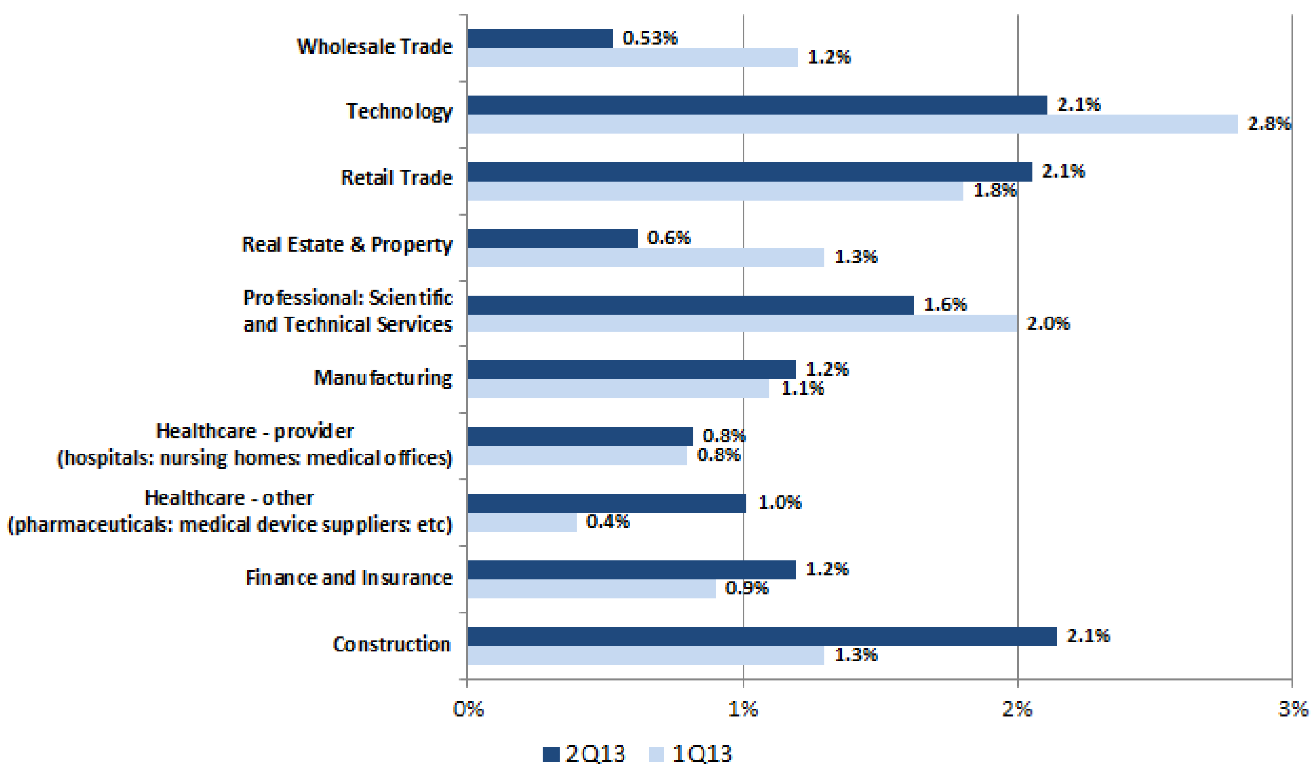
Optimism and expansion plans up across all sectors and regions, except healthcare providers and wholesale trade

Optimism about prospects for respondents' own businesses has improved across all industry sectors with the exception of healthcare providers and wholesale trade. Technology continues to lead with 68% of respondents' optimistic. Real estate and professional services holds steady at 1Q level of 60%. which continues to express optimism about their businesses. Manufacturers continue to improve from 55% to 59-60% optimism levels. Optimism continues to improve in both the construction industry and in retail trade at 59% and 64% respectively In prior quarters, the number of respondents who are optimistic about their prospects in these important sectors was below 50%. Healthcare providers continue to be the least optimistic with 31% optimistic about their prospects.

The increase in optimism was also consistent among all regions of the country, led by the West at 62% and the Midwest at 60%.

Hiring expectations are improving across the retail trade (from 1.8% 1Q to 2.1% 2Q), manufacturing (1.1% to 1.2%), healthcare-other (0.4% to 1.0%), finance and insurance (0.9% to 1.2%) and construction in the lead going from 1.3% to 2.1%. Technology is down to 2.1% from 2.8%. Real estate expected employment change decreases in1Q 2013 from 1.3% to 0.6% in 2Q. Hiring is projected to be the most robust in the construction sector which is expecting to increase headcount at a 2.1% rate, significantly higher than 1Q projection of 1.3%. Professional services hiring is expected to decrease at a rate of 1.6%, and retail showed marked improvement over 1Q 2013, now projecting a 2.1% increase in headcount over the next 12 months. Whole trade expected employment change has gone from 1.2% 1Q to 0.5% 2Q. Healthcare remains unchanged at 0.8%.

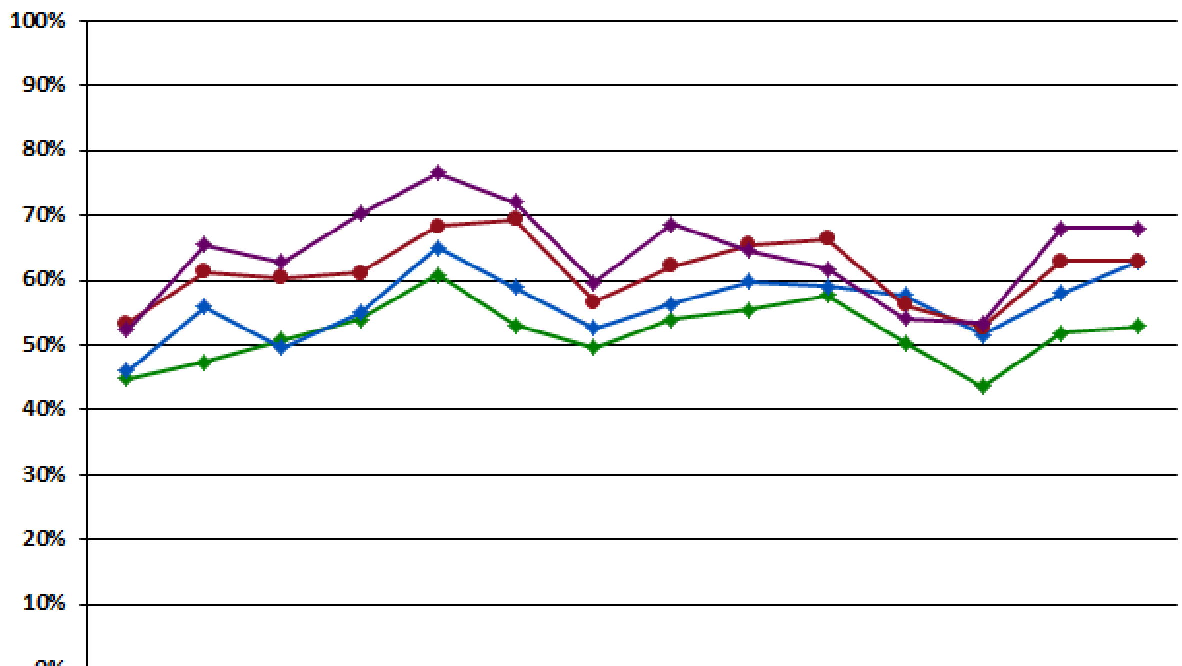
Expected Employment Change by Industry



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 second quarter 2013, 53% of all businesses expect to expand a little in the next twelve months. 9% anticipate expanding a significant amount, while 36% expect to contract or stay the same. Those respondents in companies less than $10 million anticipate a 1% increase from 52% to 53% in expansion. The percentage of companies in the $10 million to 100 million category increased from 58% in Q1 to 63% in Q2. The percentage of companies with revenues of $100 million to $1 billion and those in excess of $1 billion remain unchanged at 63% and 68% respectively.

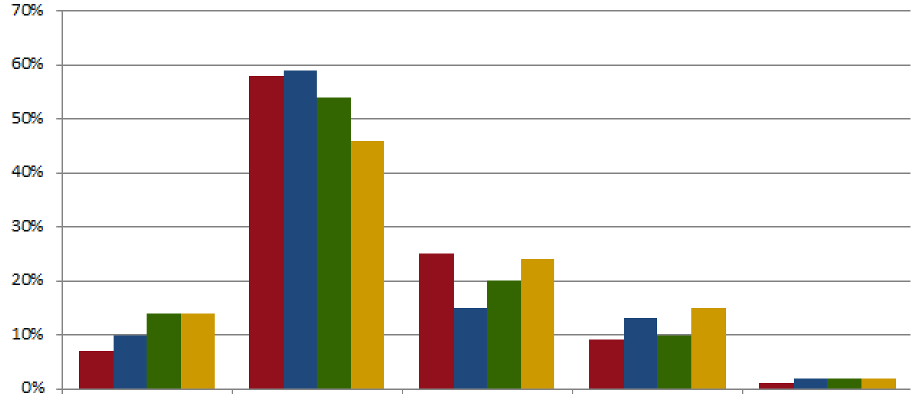
Expansion Plans by Business Size



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

Hiring plans by company size

These plans for expansion among companies also appear to be translating into plans for hiring as well. In the second quarter, 39% of companies with revenues in excess of $1billion indicated that they had too few employees, down from 44% in 1Q. while 24% have too few and are reluctant to hire, 15% say that they are planning to hire, as compared with only 10% and 15% of companies ready to hire in the smaller size categories.

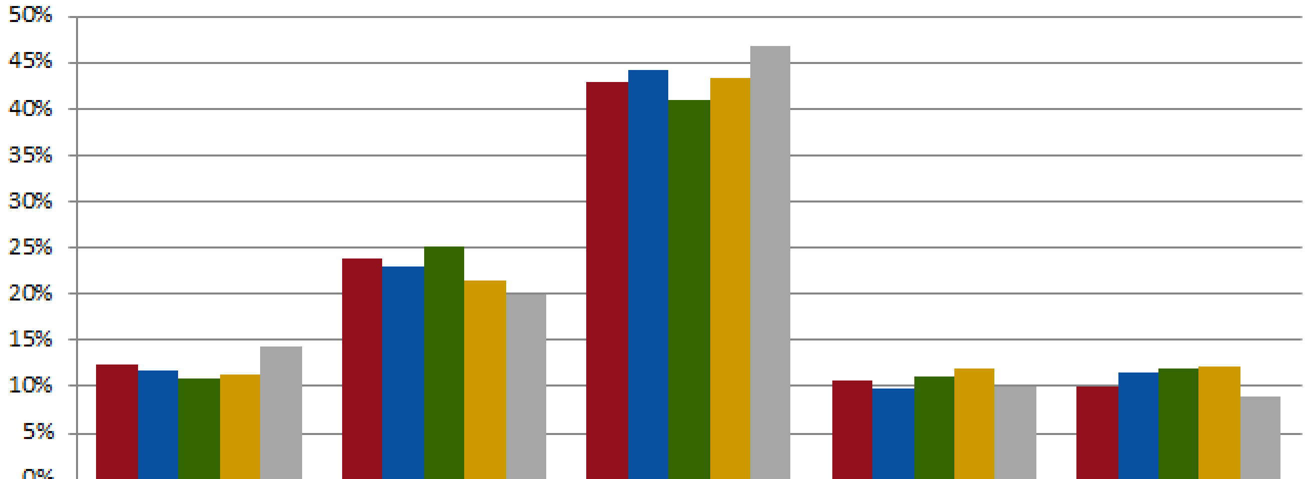


	We have an excess number of employees	We have approximately the appropriate number of employees	We have too few employees, but are hesitating to hire	We have too few employees and are planning to hire	Other
< $10 million	7%	58%	25%	9%	1%
$10 to <$100 million	10%	59%	15%	13%	2%
$100 million to <$1 billion	14%	54%	20%	10%	2%
> $1 billion	14%	46%	24%	15%	2%

Liquidity

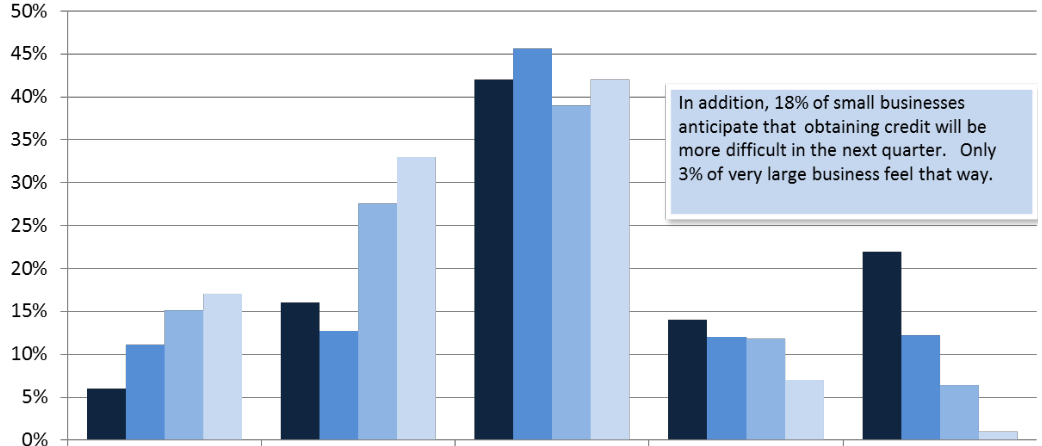
Overall liquidity remains strong for most organizations, but small businesses are struggling more than average, and reluctance to deploy excess capital persists, especially among large companies

The majority of the respondents' organizations continue to have at least as much cash with only 19% needing to raise capital; this down from 24% 1Q. On an overall basis, 34% percent have more than they need and 47% have about the right amount. Only 14% plan to deploy excess liquidity, while 20% continue to be reluctant to deploy their excess.



	More than we need and plan to deploy	More than we need, but reluctant to deploy	About right	Less than we need, and plan to raise capital	Less than we need, but credit/capital availability and/or pricing is a barrier
2Q12	12%	24%	43%	11%	10%
3Q12	12%	23%	44%	10%	11%
4Q12	11%	25%	41%	11%	12%
1Q13	11%	21%	43%	12%	12%
2Q13	14%	20%	47%	10%	9%

Cash and Liquidity Position



	More than we need and plan to deploy	More than we need, but reluctant to deploy	About right	Less than we need, and plan to raise capital	Less than we need, but credit/capital availability and/or pricing is a barrier
< $10 million	6%	16%	42%	14%	22%
$10 to <$100 million	11%	13%	46%	12%	12%
$100 million to <$1 billion	15%	28%	39%	12%	6%
> $1 billion	17%	33%	42%	7%	1%

Overall the majority of respondents (58%) 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 12% to 9% 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 2Q 2013

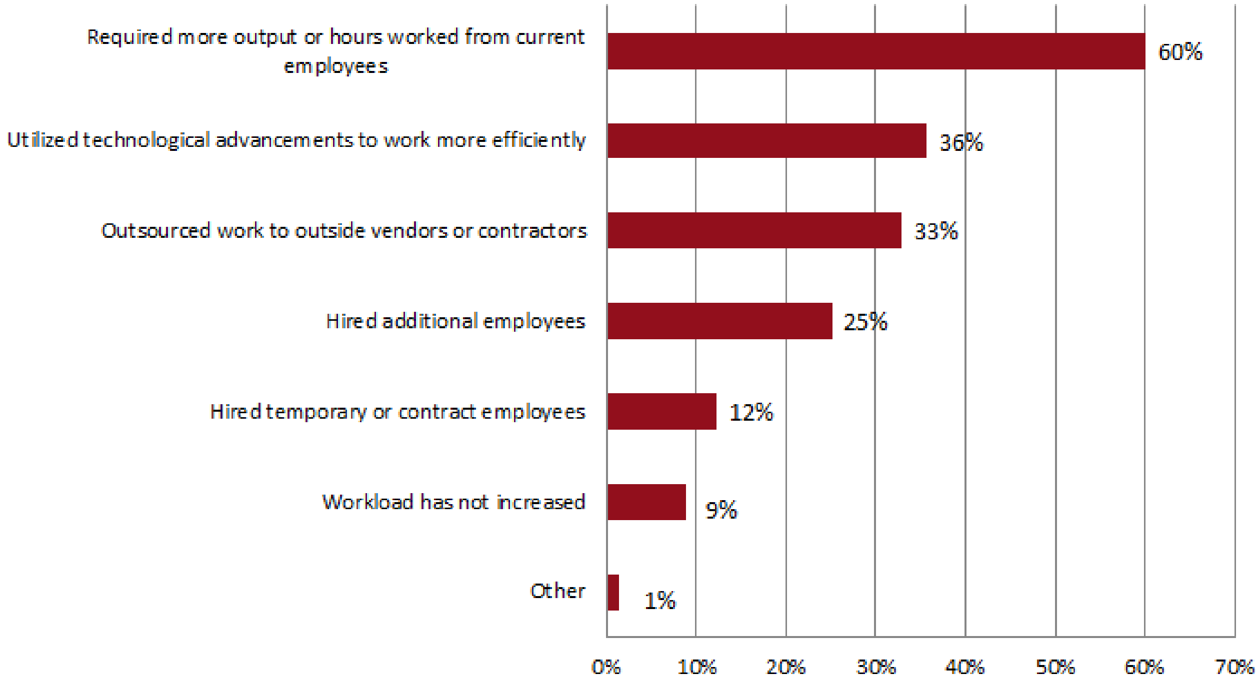
This quarter, regulatory requirements/changes took over as the top challenges facing businesses, bumping domestic economic conditions to the second position. Employee and benefits costs remain consistent domestic competition moving ahead of domestic political leadership rounding out the top five. Moving up to position six for the first time is availability of skilled personnel followed by stagnant/declining markets. Development of new products/services/markets remains stable at position number 8. For the first time, changing customer preferences makes the top ten. While global economic conditions slipped from the ninth to the 10th spot in the ranking. Materials/supplies/equipment costs dropped off the list.

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

Regulatory burden and company response

Healthcare reform tops list of compliance burdens

This quarter's survey within a survey focused on regulatory burdens impacted by the Health Care Reform Act and the Proposed Revenue Recognition Standard. Over half of the respondents (54%) indicate a moderate or greater impact on staff workload as a result of the Healthcare Reform Act; whereas large companies report a significant impact. IRS/Treasury/State and local tax authorities continue to require additional compliance efforts according to more than one third of respondents. Workload continues to exist relative to the Dodd-Frank Act with 24% indicating a moderate or more increase compliance effort anticipated.



A majority, over 60% of respondents companies, are responding to the increase in regulatory burden by requiring more output or hours worked from current employees. Thirty-six percent (36%) are utilizing technological advancements to work more efficiently. One third are outsourcing work, and 25% are hiring additional employees. Temporary or contract employees are a response to the increasing regulatory burden by 12% of respondents.

Survey Background

The survey was conducted of AICPA Business & Industry members between May 16 and May 30, 2013 and had 1,185 qualified respondents. Fifty percent of respondents were CFOs, 21% were Controllers, 10% were CEOs or Presidents, 9% were VPs, 3% were COOs; the remainder were Directors or other executives. Sixty-nine percent of respondents came from privately owned entities, 15% from publicly listed companies, 12% from not-for-profits, 1% from government and 2% from other. Ten percent came from organizations with annual revenues of $1 billion or more, 23% from organizations with $100 million to under $1 billion in annual revenues, 48% from organizations with $10 million to $100 million and 20% from organizations with under $10 million in revenues (numbers may add to more than 100 due to rounding).