



AICPA

Business and Industry

Economic Outlook Survey

Detailed Survey Results — 2Q 2013

Survey Background

- **Conducted between May 16 and May 30, 2013**
- **Quarterly Survey**
- **CPA decision makers (primarily CFOs, CEOs and Controllers)**
- **AICPA members in Business & Industry only**
- **1,220 total responses, 1,185 qualified responses**

Survey Highlights

■ CPA Outlook Index improves another 3 points to 69

- Overall index up 3 points from 66 to 69; matching previous post recession highs of 1Q 2011 and 1Q 2012
- All index components show improvement for second consecutive quarter
- US economy optimism index component recovers another 16 points on top of Q1 gain of 14 points in spite of lingering concerns about employment and healthcare

■ Organizational optimism reaches post-recession highs

- Optimism about respondents own companies now at 57%, equaling the Q1 2011 “bounce” as the highest level since 4Q 2007
- Technology continues to be the most optimistic sector, but retail shows the biggest improvement in Q2

■ Key Performance Indicators all show slight improvement

- Revenues, profits, headcount and spending all show improvement

■ Hiring plans also show some improvement; reluctance to hire eases slightly

- Just under a third (31%) of companies have too few employees; 12% have current plans to hire, consistent with Q1; 19% of companies with too few employees continue to be reluctant to hire, falling below 20% for the first time since 1Q 2011
- Small businesses are least likely to have excess employees and most hesitant to hire; 25% of the largest companies also reluctant to hire

CPA Outlook Index (CPAOI)

CPA Outlook Index

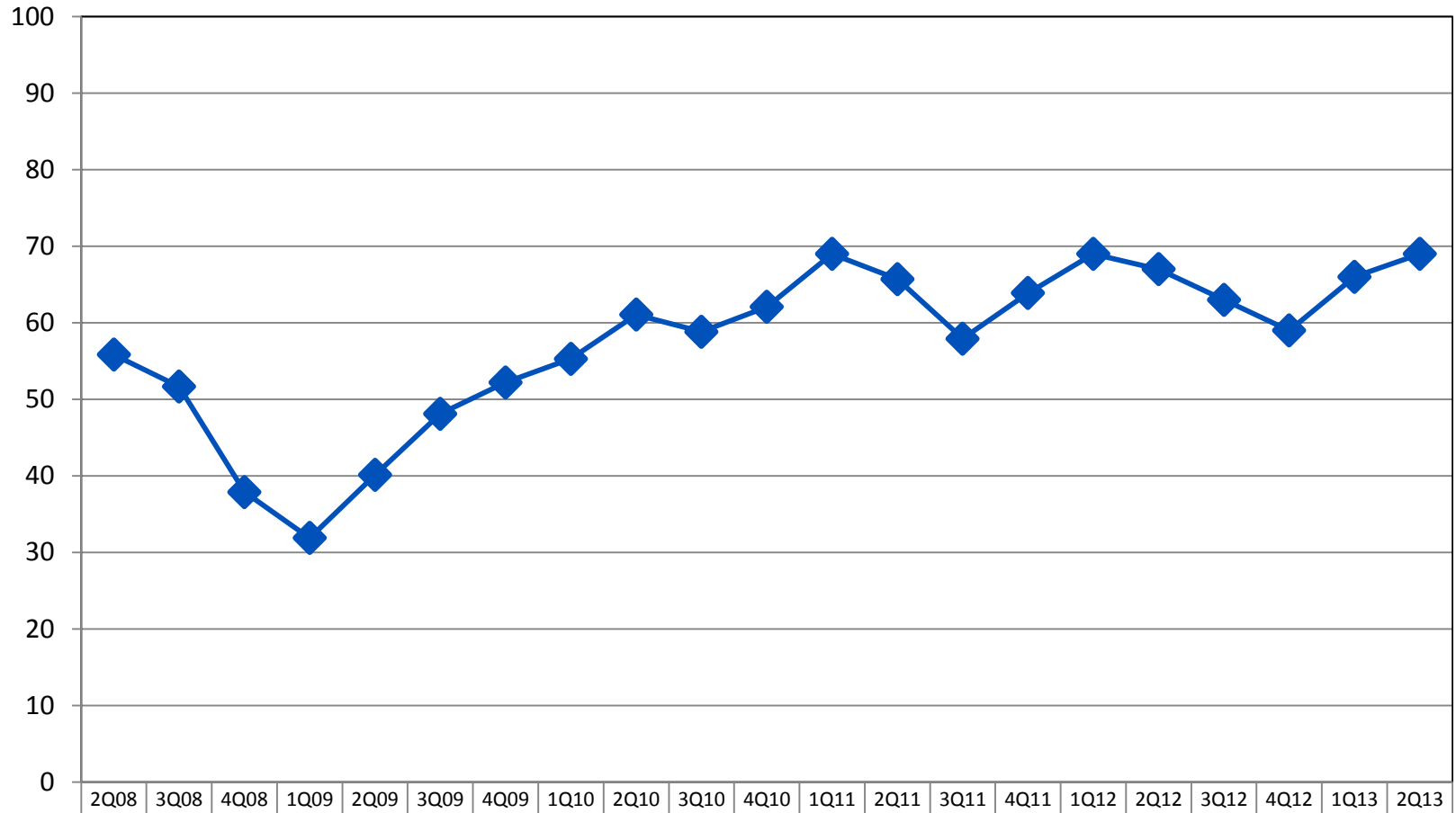
The CPA Outlook Index is a robust measure of sentiment about the U.S. economy that is supported by the unique insight and knowledge that CEOs, CFOs, Controllers, and other CPA executives have about the prospects for their own organizations, their expectations for revenues and profits, and their plans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

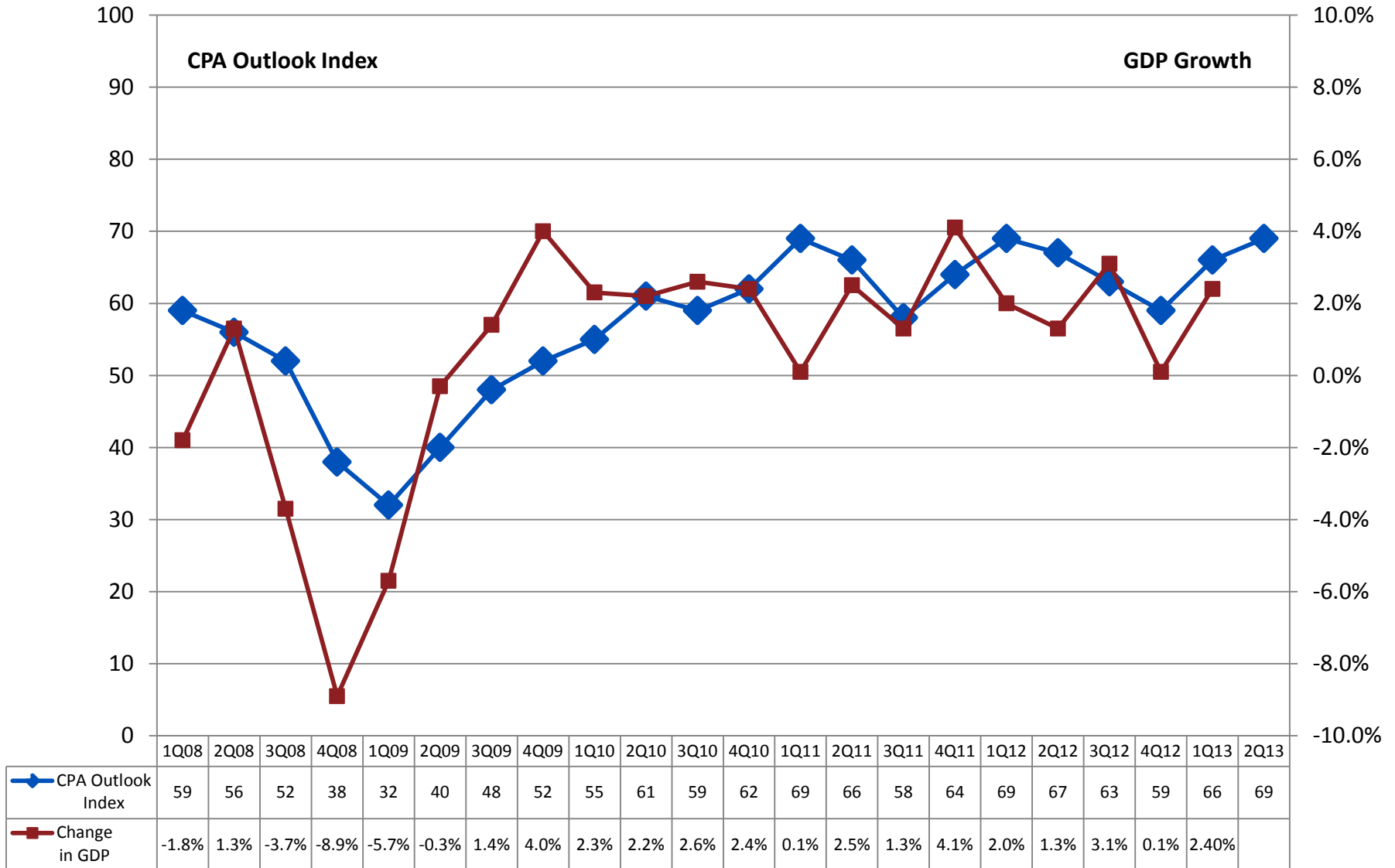


CPA Outlook Index	56	52	38	32	40	48	52	55	61	59	62	69	66	58	64	69	67	63	59	66	69
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CPA Outlook Index Component Indicators

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

CPA Outlook Index (CPAOI) vs GDP



U.S. & Organization Outlook

Outlook for the U.S. and Organizations

■ **Optimism for the U.S. Economy recovers sharply**

- Optimism about the US Economy rose sharply from 32% in Q1 to 49% in Q2, marking the highest reading since 1Q 2007
- The number of pessimists has declined from 49% in Q4 2012 to 17% this quarter; slightly more than a third (34.7%) remain in the neutral camp
- Consumer spending, housing and employment were cited by optimists as factors in their opinion; political leadership; healthcare reform and the employment situation were cited by the neutral and pessimistic responses

■ **Organizational optimism reaches highest level since 4Q 2007**

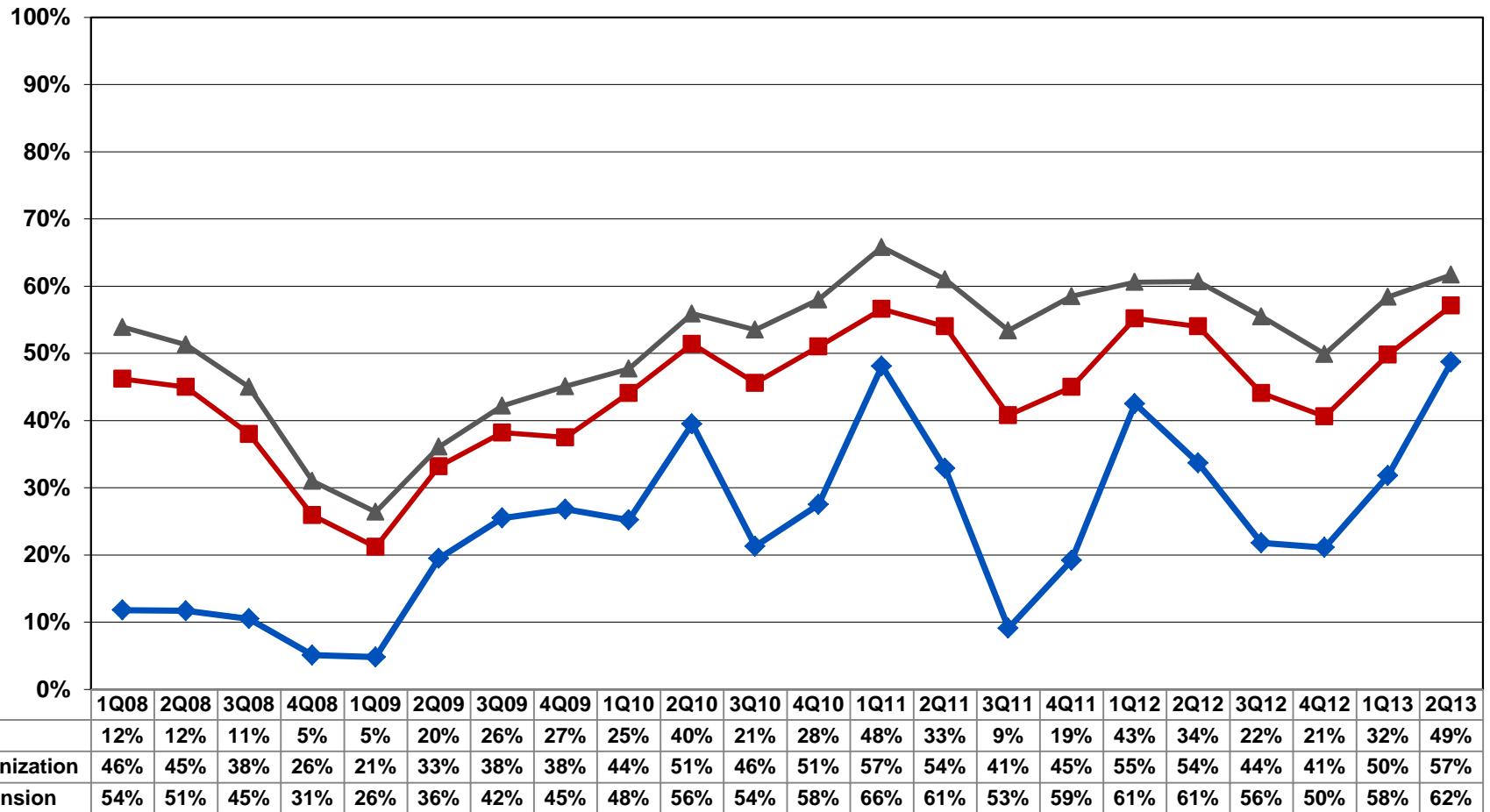
- Optimism about own company prospects improved from 50% to 57%, the highest level since 4Q 2007 (also reached in 1Q 2011)
- The number of companies expecting their business to expand increased again this quarter from 58% to 62%; with the exception of the Q1 “bounce” in 2011, these are the highest levels since 3Q 2007

■ **Inflation concerns remain low**

- Only 30% are concerned about inflation vs. 36% in 1Q 2013
- Labor costs moved ahead of raw material costs as the primary concern

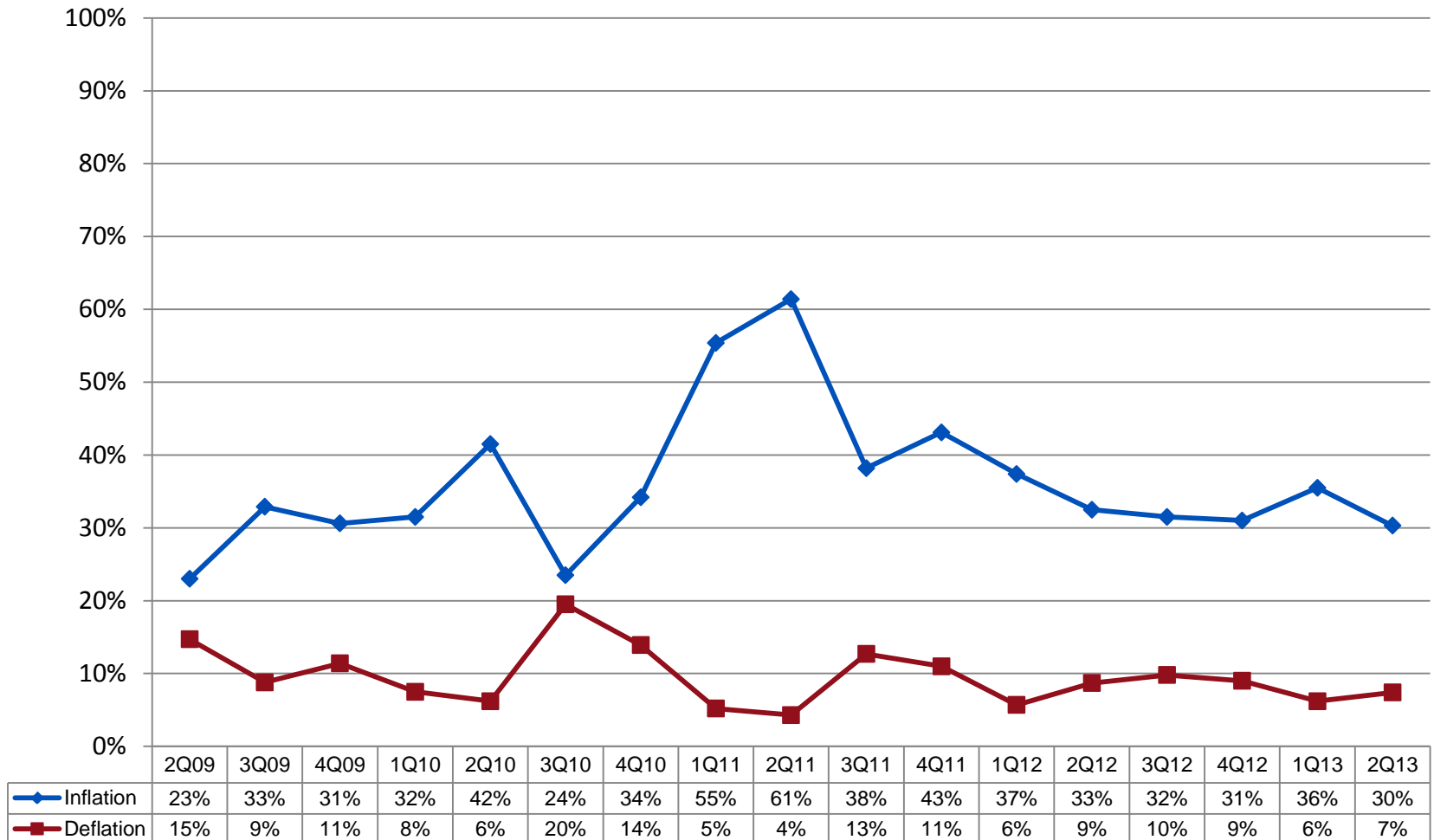
Optimism & Expansion

US, Organization, Expansion



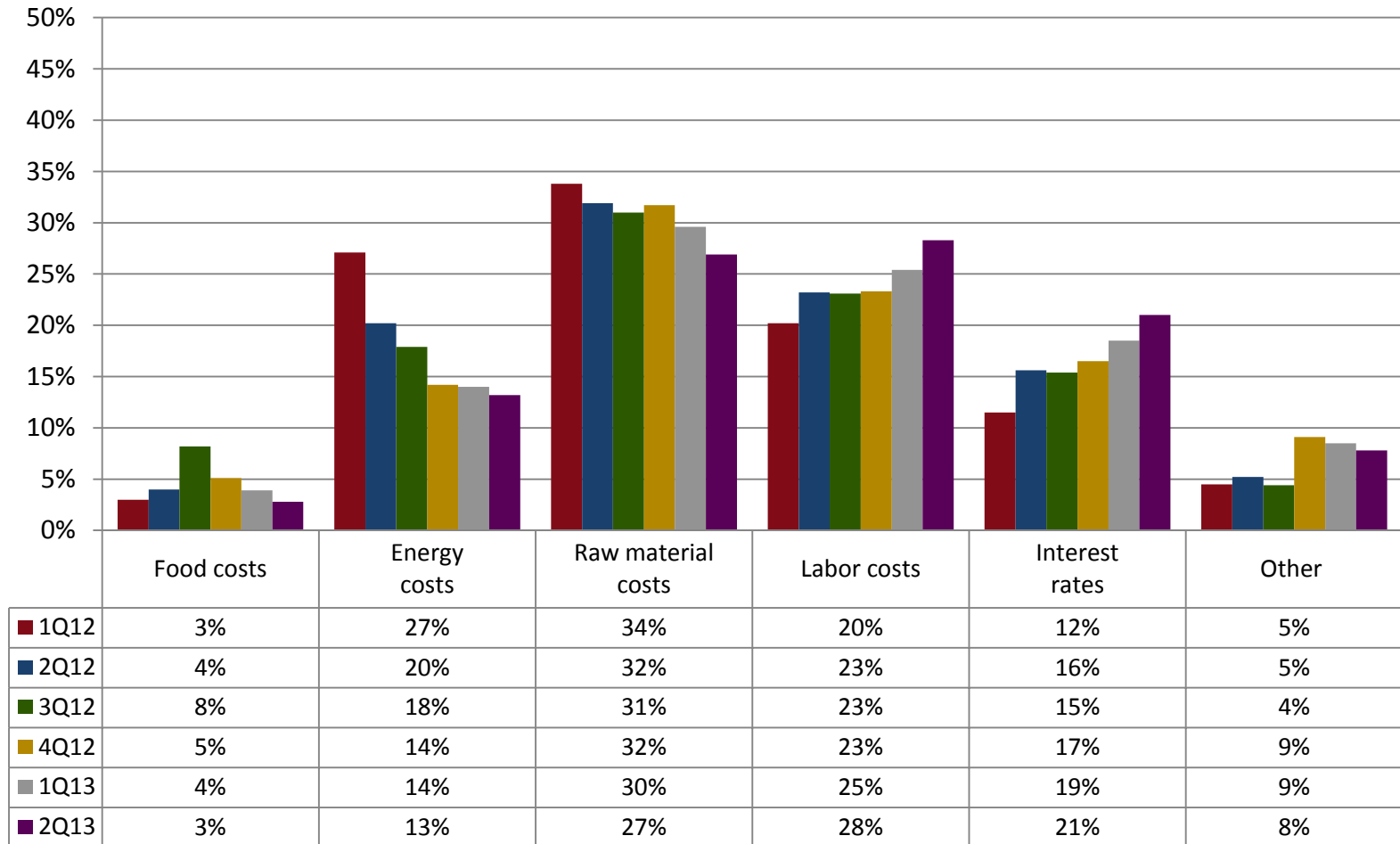
For your business, are you more concerned about inflation or deflation?

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



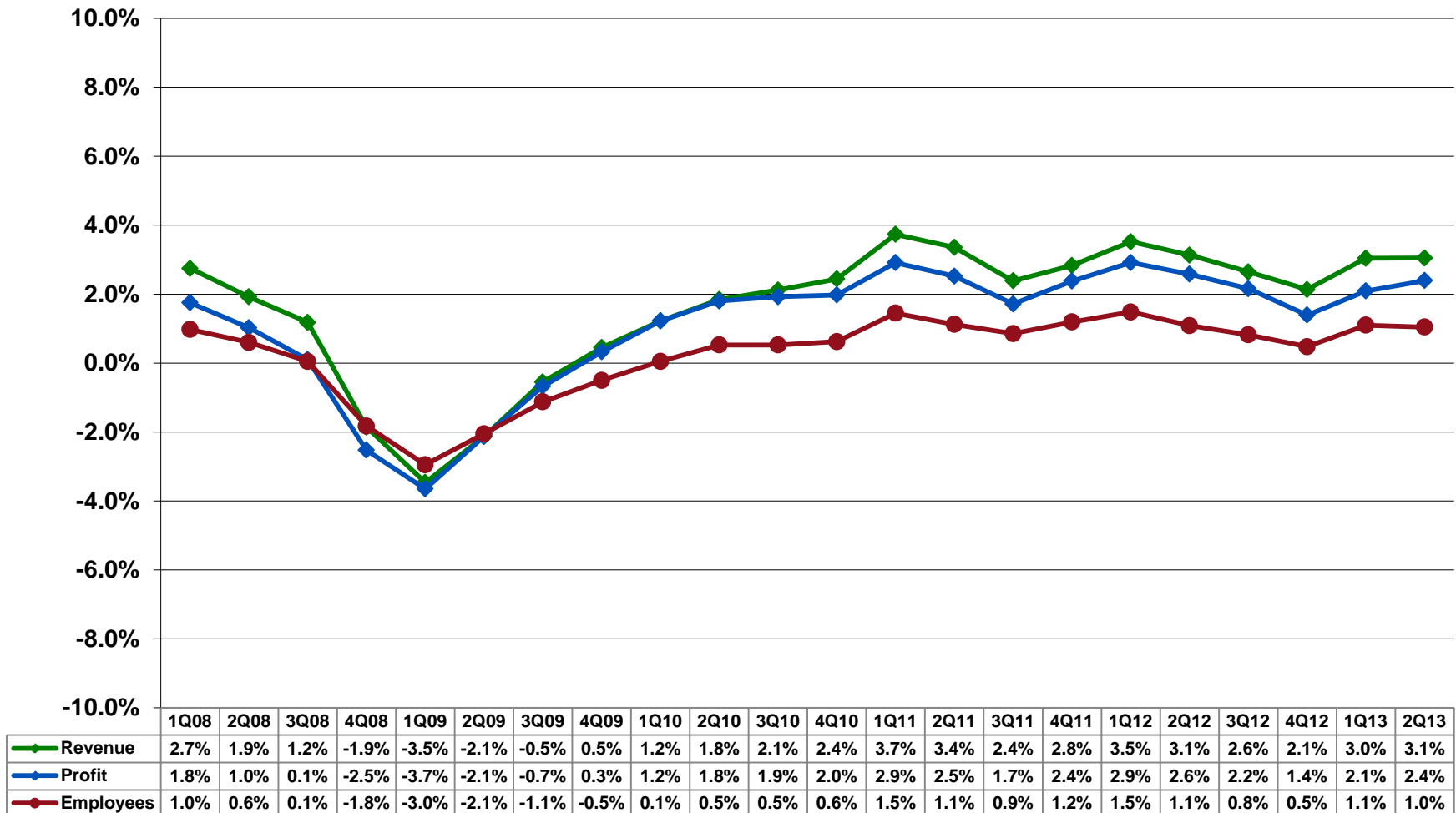
Key Performance Indicators

Key Performance Indicators

- **Outlook for revenue and profit improved slightly from Q1 2012; headcount expansion plans off by 0.1%**
 - Revenues expected to increase at 3.1% rate: profits at 2.4%
 - Headcounts expected to increase by 1.0% over the next year as compared with a projected increase of 1.1% in the Q1 2013 survey
- **Expectations for healthcare cost increases jumped 0.4%**
 - Prices charged have decreased by 0.2% to 1.1%, and continue to lag behind input and salary and benefit costs of 1.8% and 2.2%, respectively
 - Expected increases in healthcare costs jumped from 6.3% in 1Q to 6.7% in 2Q
- **Spending plans remained relatively constant after 1Q improvements**
 - Increased spending for IT continues to be the strongest category of spending and increased from 2.7% in Q1 2013 to 2.8% in Q2 2013
 - Other capital spending increased from 1.9% to 2.2%
 - Training spending remained unchanged at 1.3%
 - Marketing spending eased from 1.5% to 1.4%
 - R&D spending is scheduled to increase the least at 1.0%

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

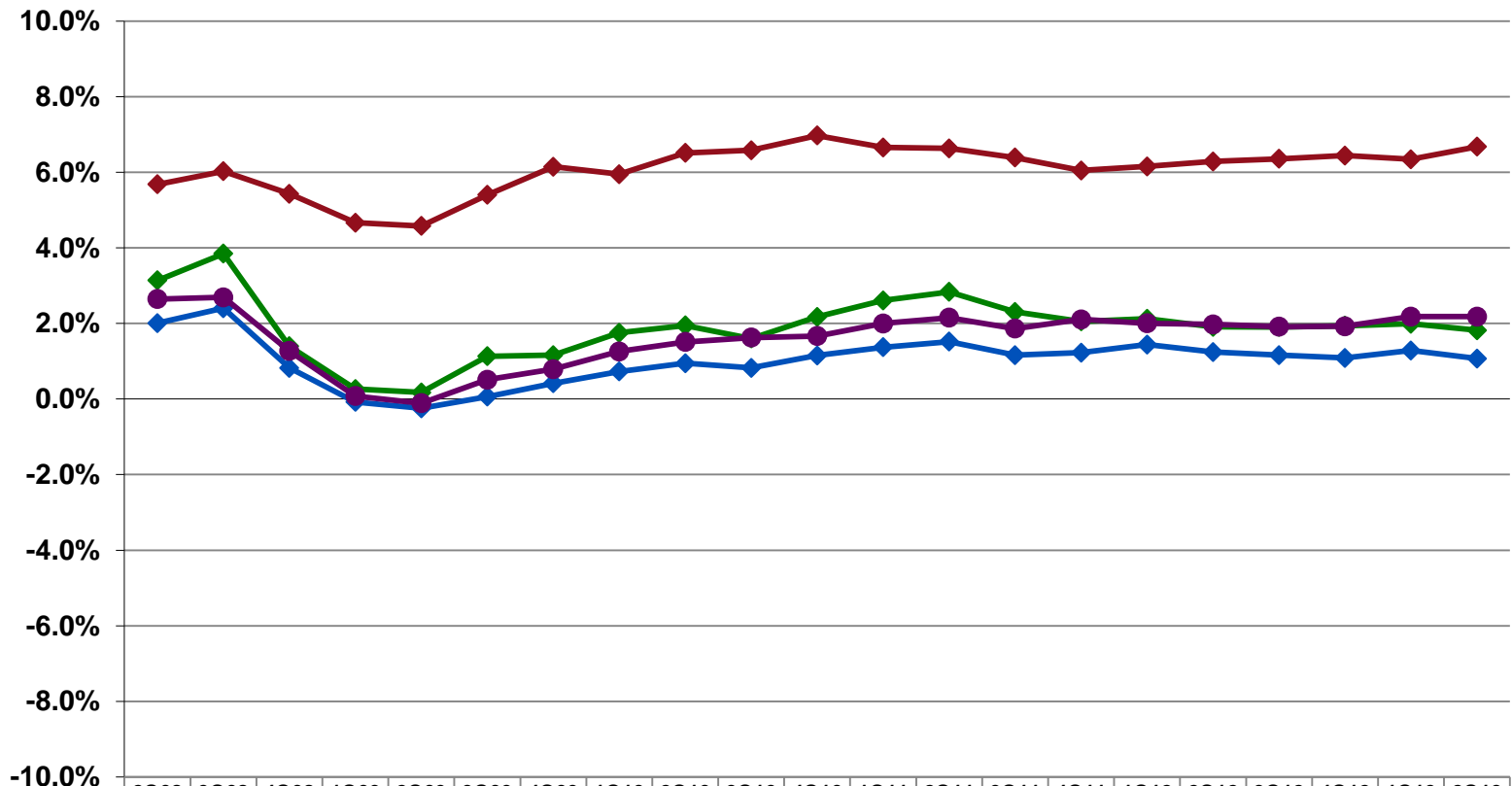
Thinking about the coming 12 months, please comment on the probable change for your organization for ...



Pricing & Costs

Average Change Expected

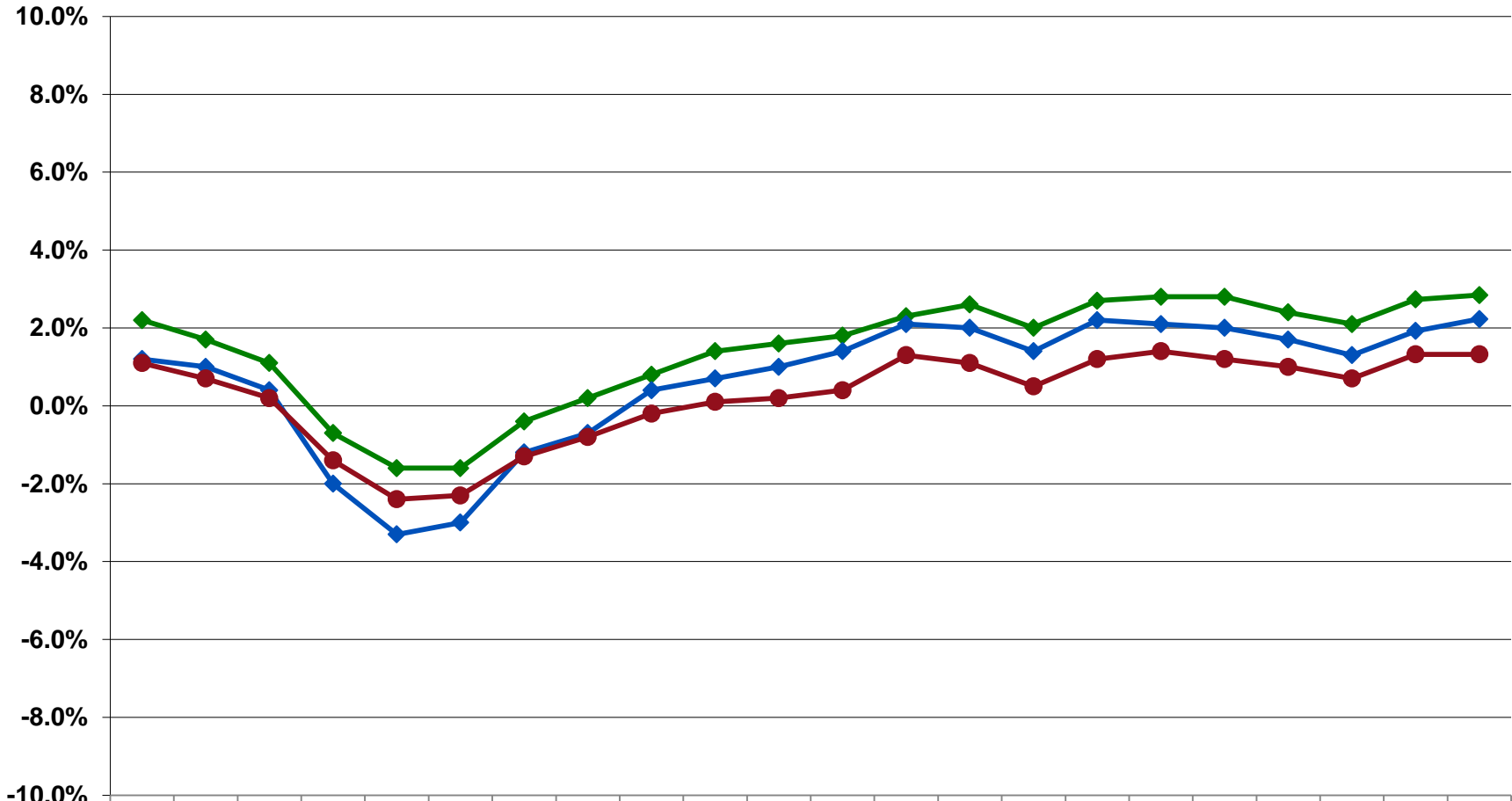
Thinking about the coming 12 months, please comment on the probable change for your organization ...



	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
Input Prices	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%	1.8%
Prices Charged	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%	1.1%
Salary & Benefits	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%	2.2%	2.2%
Healthcare	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%	6.7%

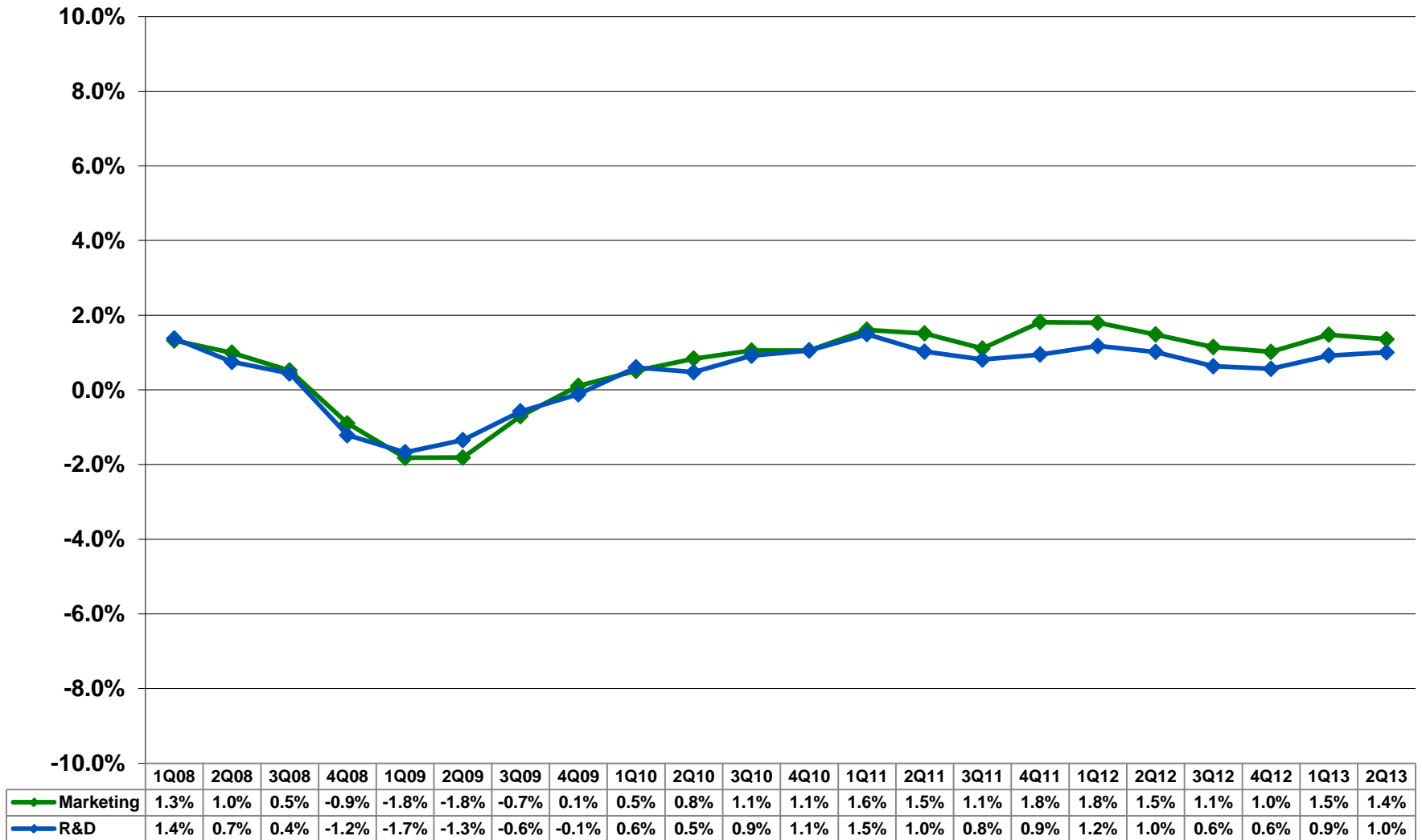
Spending Plans IT, Other Capital & Training

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 ...



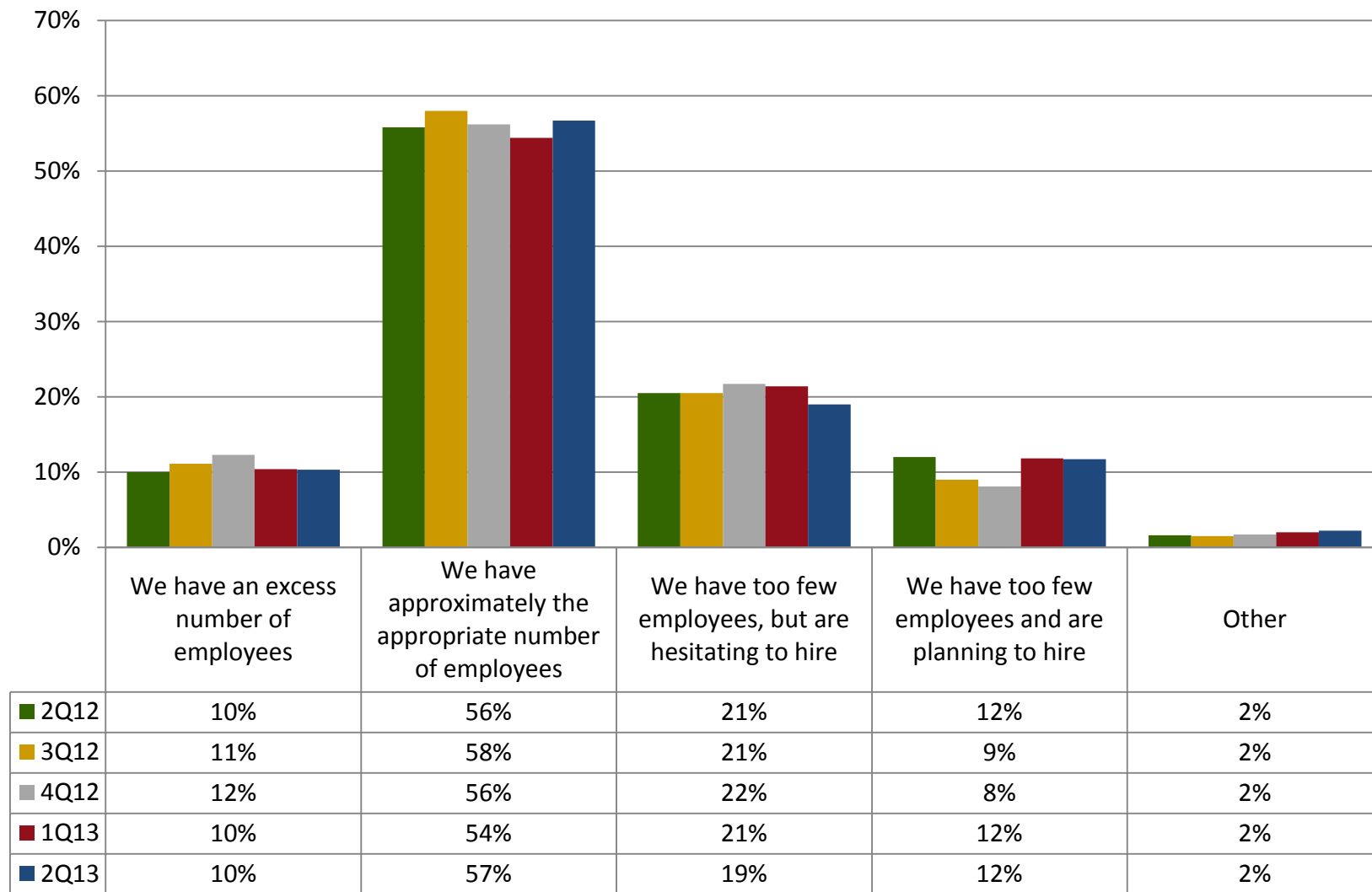
Hiring Plans

Hiring Plans

- **Hiring plans show slight improvement over Q1 2013; per cent of companies reluctant to hire falls below 20% for first time since 1Q 2011**
 - Slightly more than half of all companies (57%) say they have the right number of employees
 - In Q2 2013 only 10% say they have too many employees, consistent with Q1
 - Slightly less than a third (31%) have too few employees
 - Of these, 12% are planning to hire, up slightly from only Q3 and Q4 2012 levels, and the same as Q1 2013
 - Only 19% 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)?



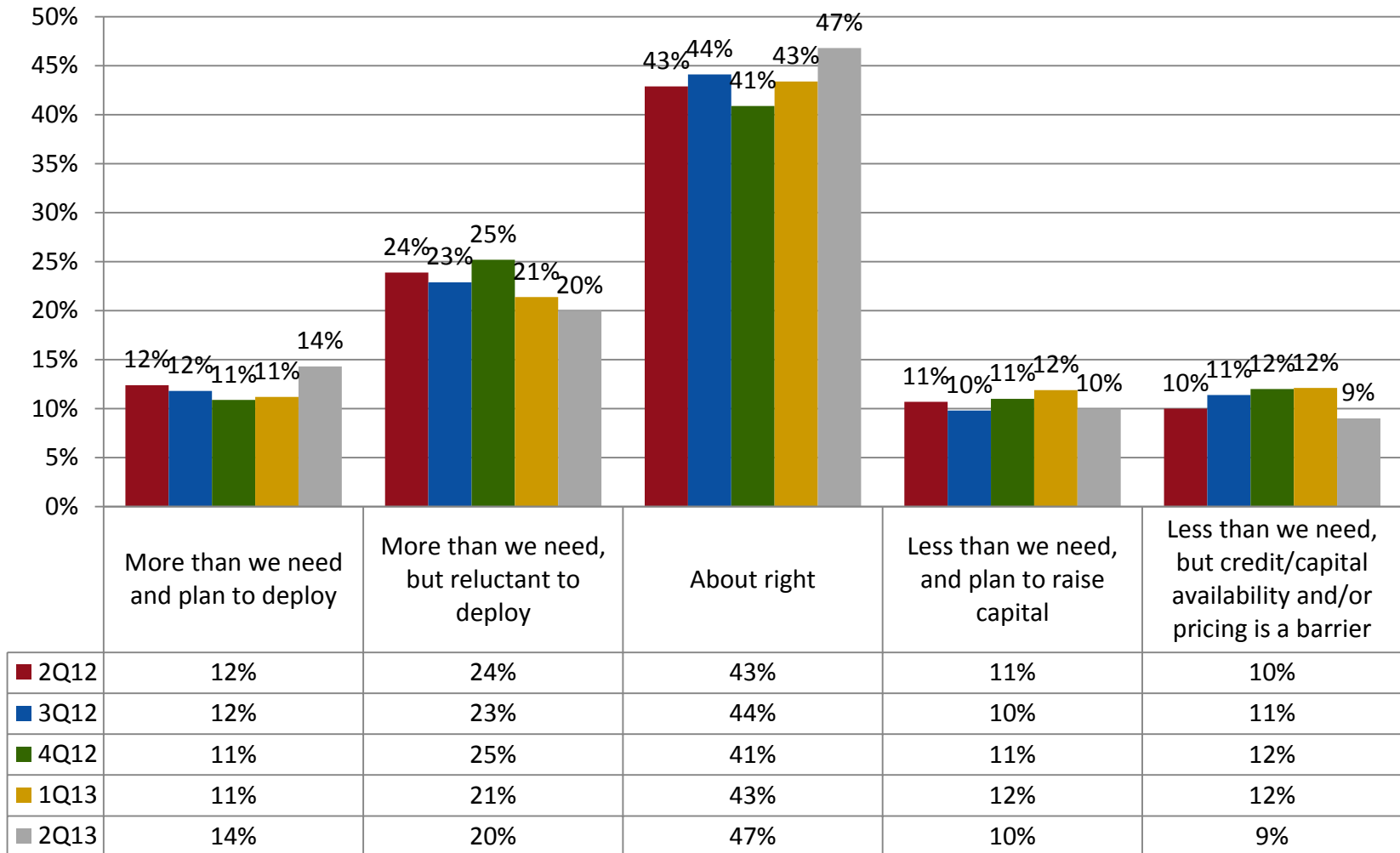
Liquidity

Liquidity

- **Liquidity positions improve; plans to deploy excess capital increase slightly overall** The number of companies indicating they had about the right amount of liquidity increased from 43% to 47% in Q2 2013
 - The number indicating they had more than they needed and plan to deploy the excess also increased from 11% to 14%; while the number indicating reluctance to deploy their excess fell from 21% to 20%
 - Nearly half (48%) of large companies have excess cash, but are nearly evenly split between those with plans to deploy and those reluctant to deploy
 - The number of companies indicating the need capital fell slightly from 24% in 1Q 2013 to 19% in 2Q 2013; consistent with previous periods, half of those needing capital expect availability and/or pricing to be a barrier
- **Overall respondents expect credit availability to be slightly less difficult**
 - The number of companies expecting it to be more difficult to get necessary financing fell from 12% at 1Q 2013 to 9% at 2Q

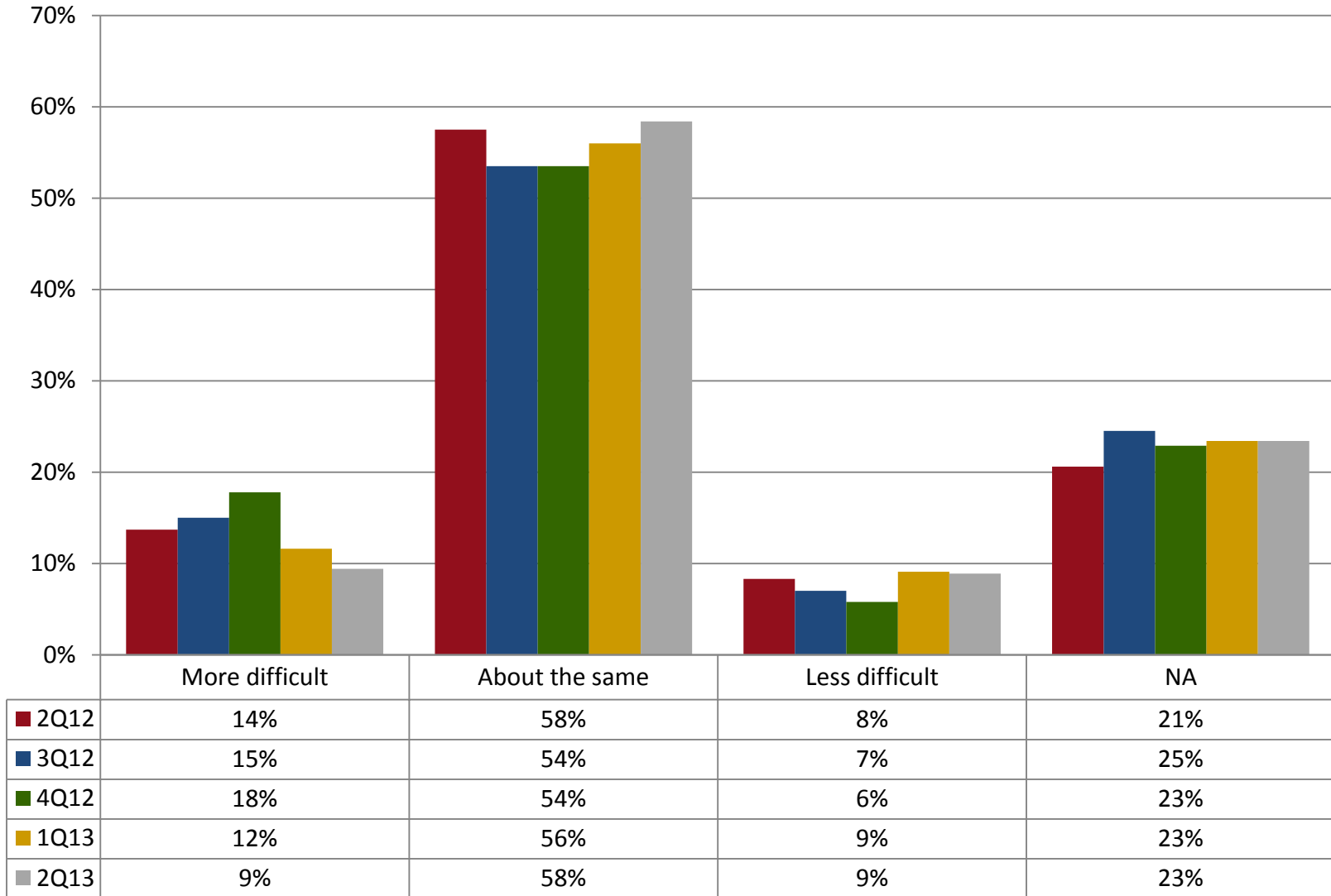
Cash & Liquidity Position

How would you characterize your organization's current liquidity position



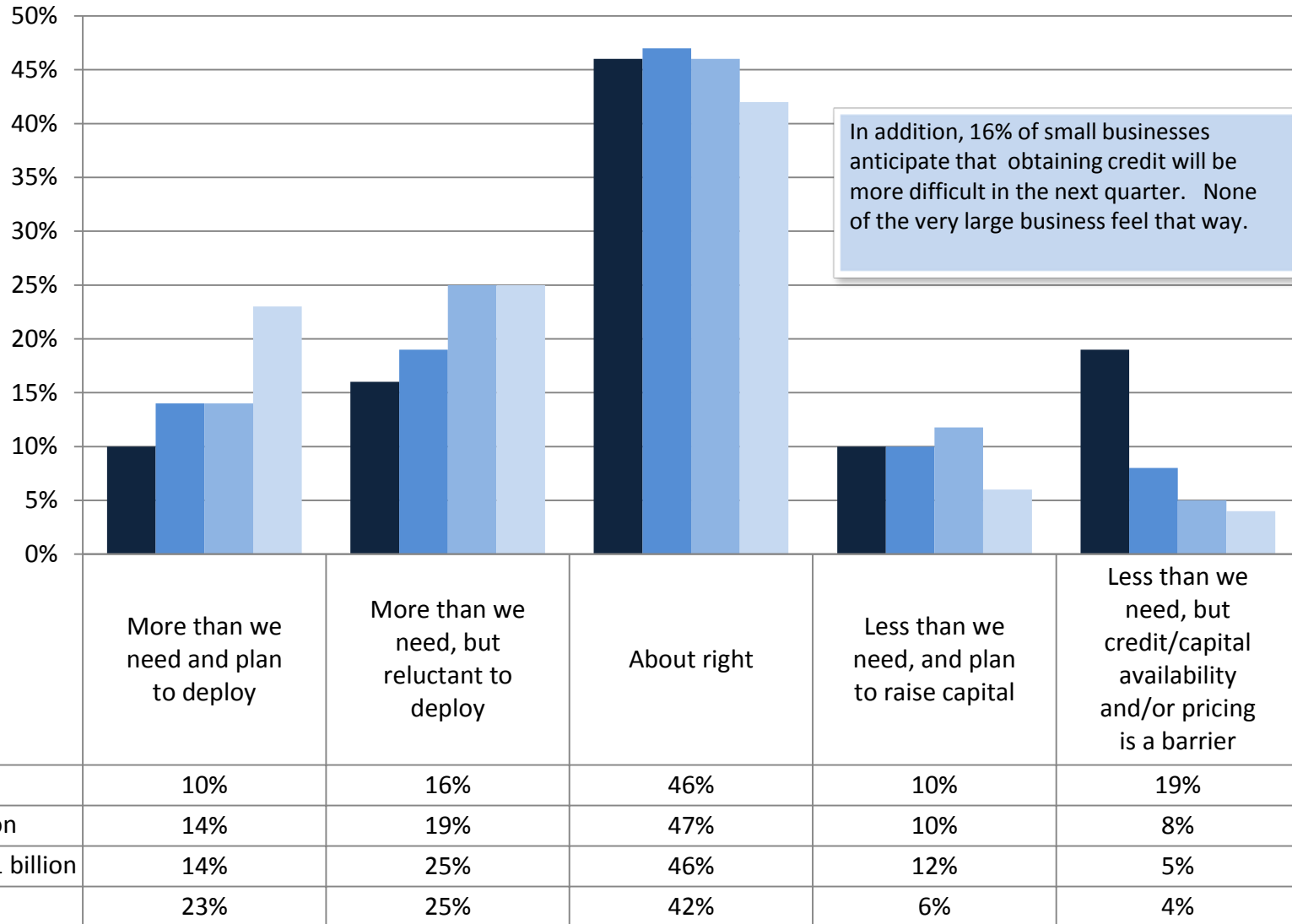
Difficulty Obtaining Required Financing

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 you characterize your organization's current liquidity position



Top Challenges

Top Challenges Facing Organizations

- **Regulatory requirements/changes takes over as the top ranking challenge**
- **Domestic economic conditions moves down to the #2 spot**
- **Employee and benefits costs continues in the 3rd position**
- **Domestic competition advances from #5 to #4, switching places with domestic political leadership which moved from #4 to #5**
- **Changing customer preferences breaks into the Top 10 for the first time**

Top Challenges for Organizations

Please indicate the top three challenges for your organization

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/equipment 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

Note: Challenge categories were modified in Q4 2011.

Outlook by

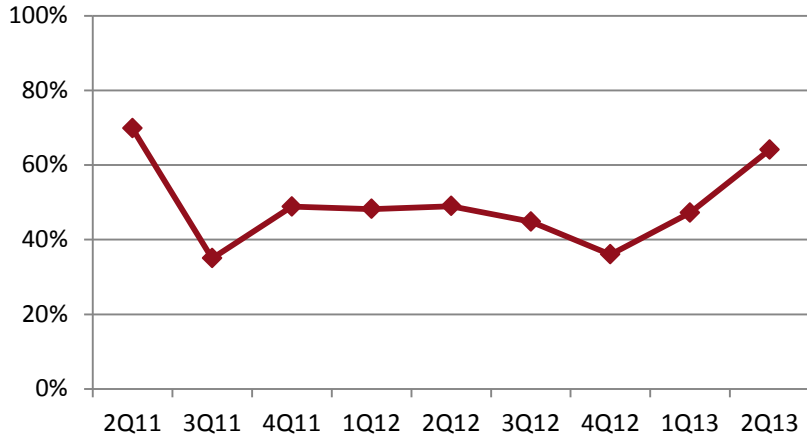
Industry, Region and Business Size

Industry, Region and Business-size Outlook

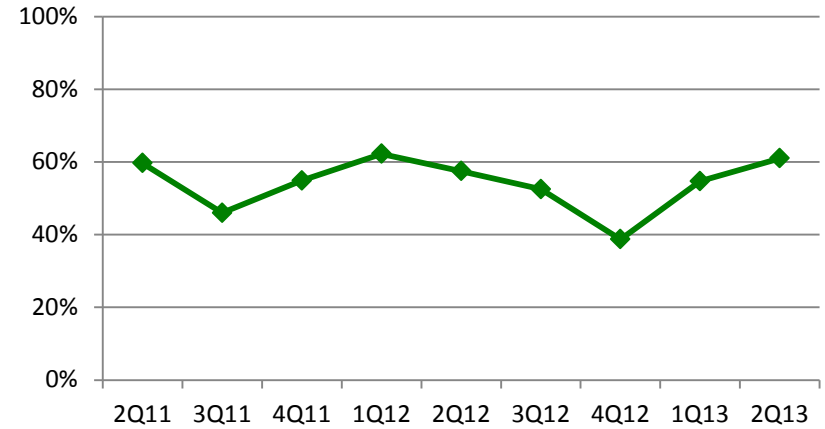
- **Optimism improved across all sectors except healthcare providers and wholesale trade**
- **Technology strongest sector; retail shows biggest improvement**
 - Nearly two-thirds (64%) of retailers now optimistic up from 47% in 1Q 2013
 - Technology continues to lead with 68% optimistic
 - Manufacturing, construction, finance & insurance, professional services all up and now at 59-60% level of optimism
 - Real estate holds at 1Q level of 60% optimistic
 - Headcount increases by industry show adjustments from sector to sector vs. Q1
- **Optimism up across all regions**
 - All regions showing improvement, led by West (62%) and Midwest (60%)
- **Expansion plans up for all companies**
 - Expansion plans are also up for businesses below \$100 million revenue.
 - More than two-thirds (68%) of the largest companies expect to expand; while only slightly more than half (53%) of the smallest companies expect to do so
 - Companies in the \$10m - \$100 million revenue range show the biggest gain

Organization Optimism by Industry

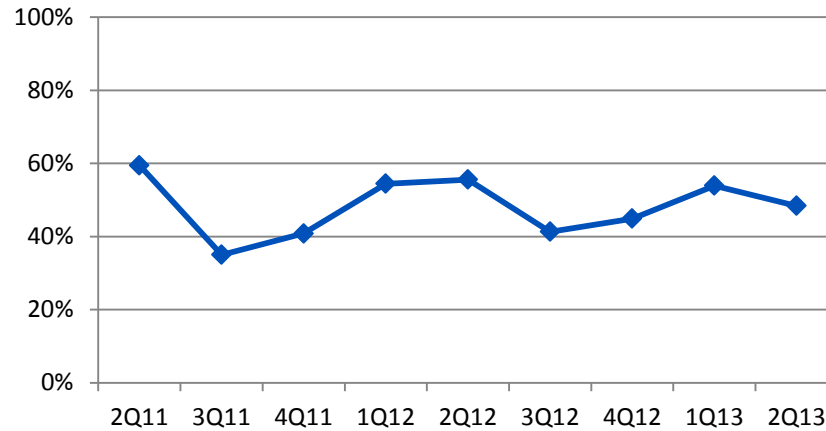
Retail Trade



Manufacturing

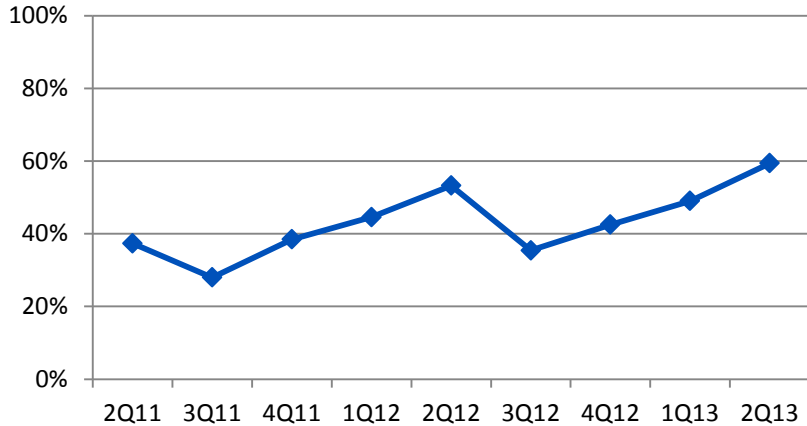


Wholesale Trade

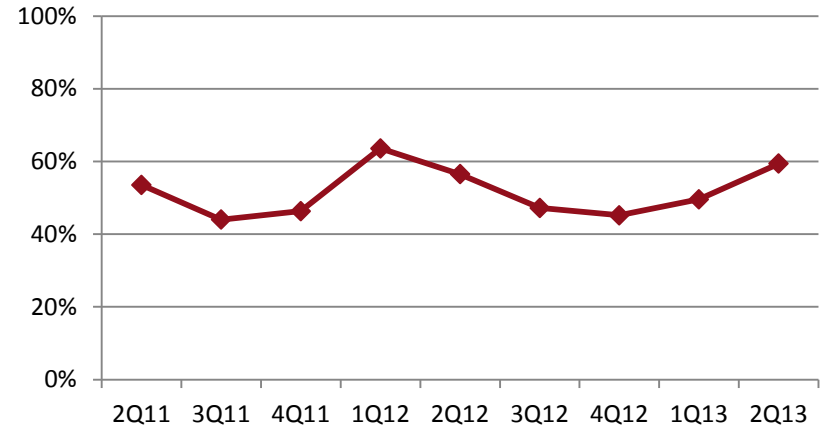


Organization Optimism by Industry

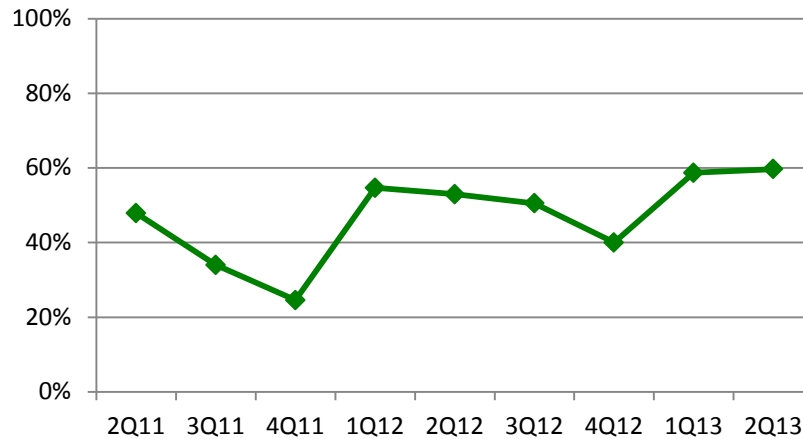
Construction



Finance & Insurance

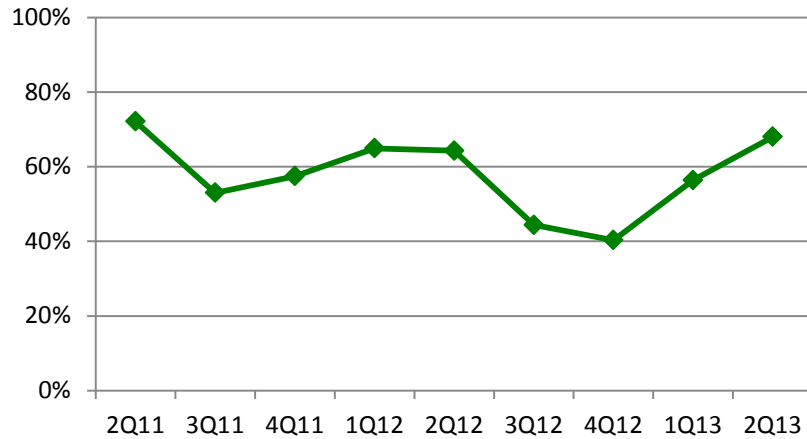


Real Estate

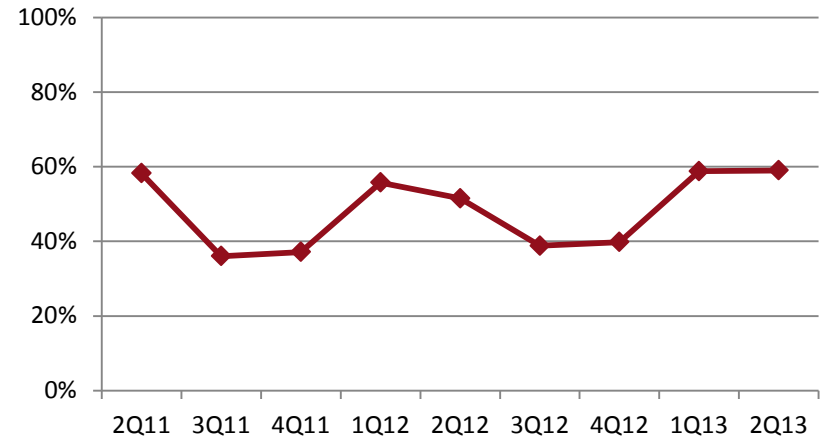


Organization Optimism by Industry

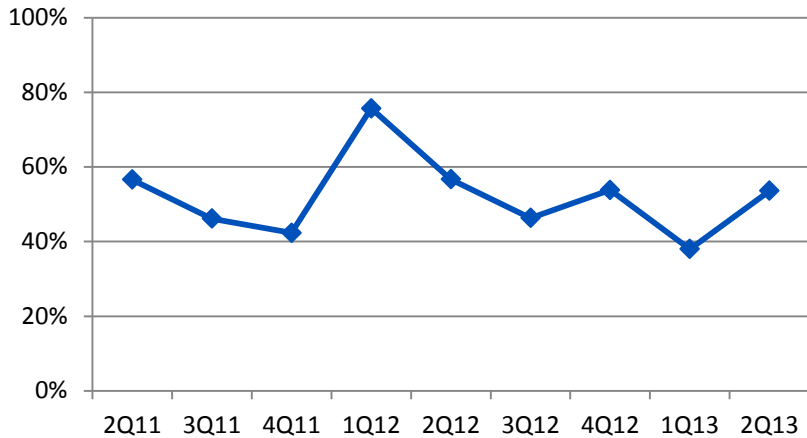
Technology



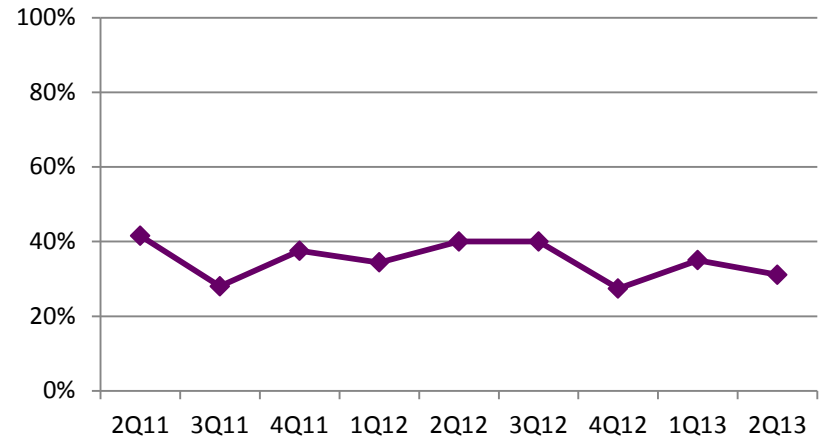
Professional Service



Health Care Other

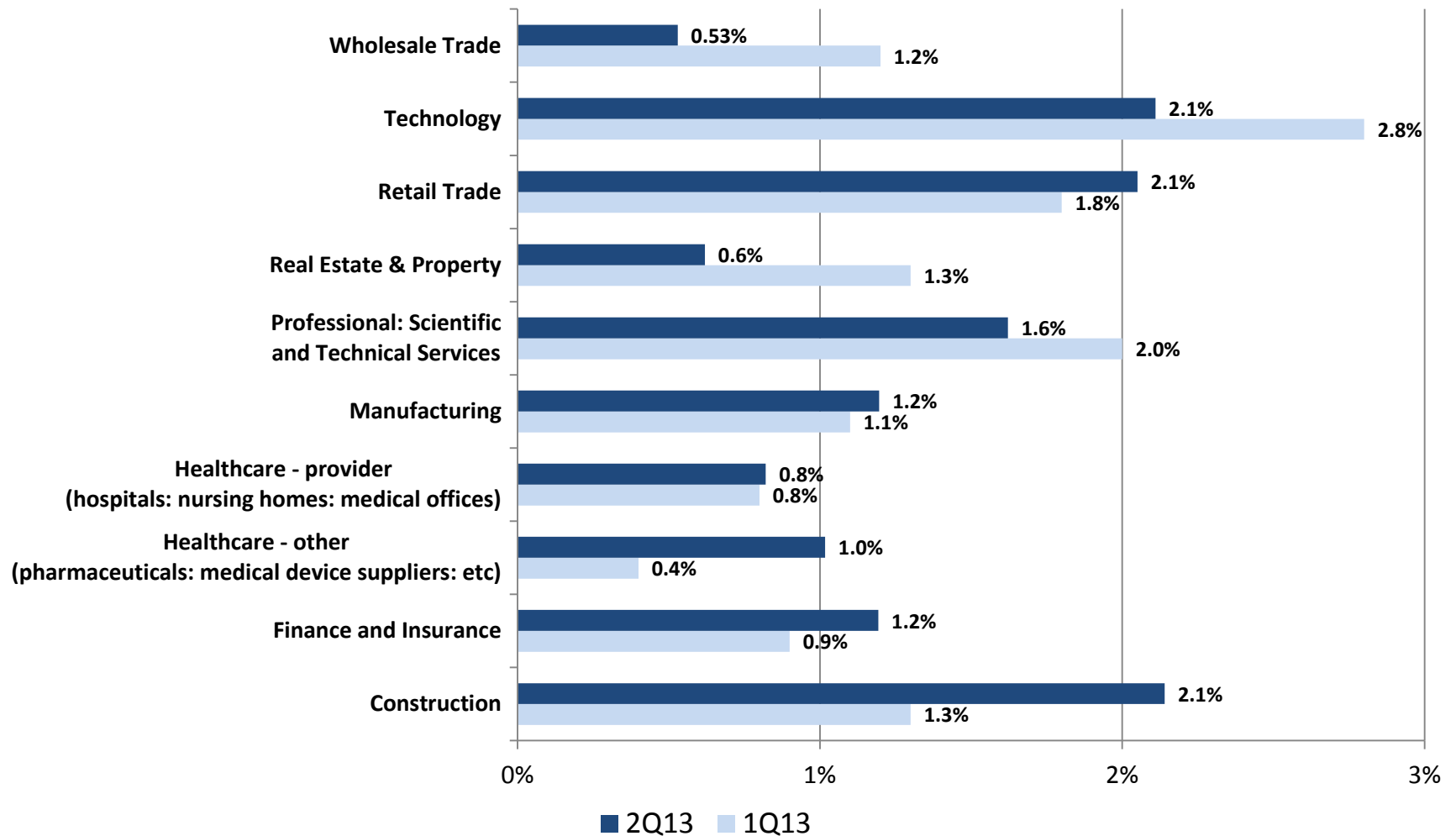


Health Care Provider



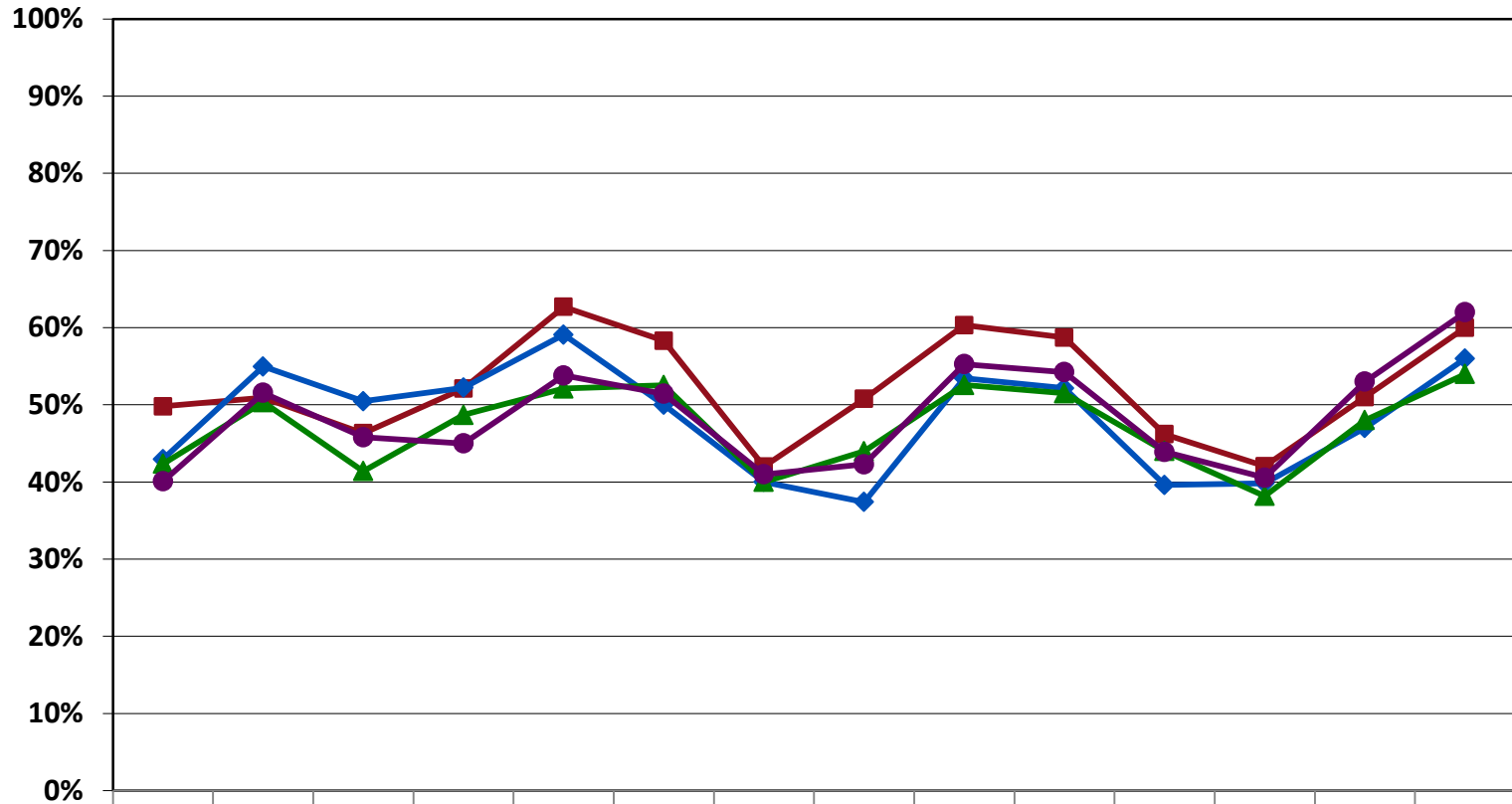
Expected Employment Change by industry

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



Organization Optimism by Region

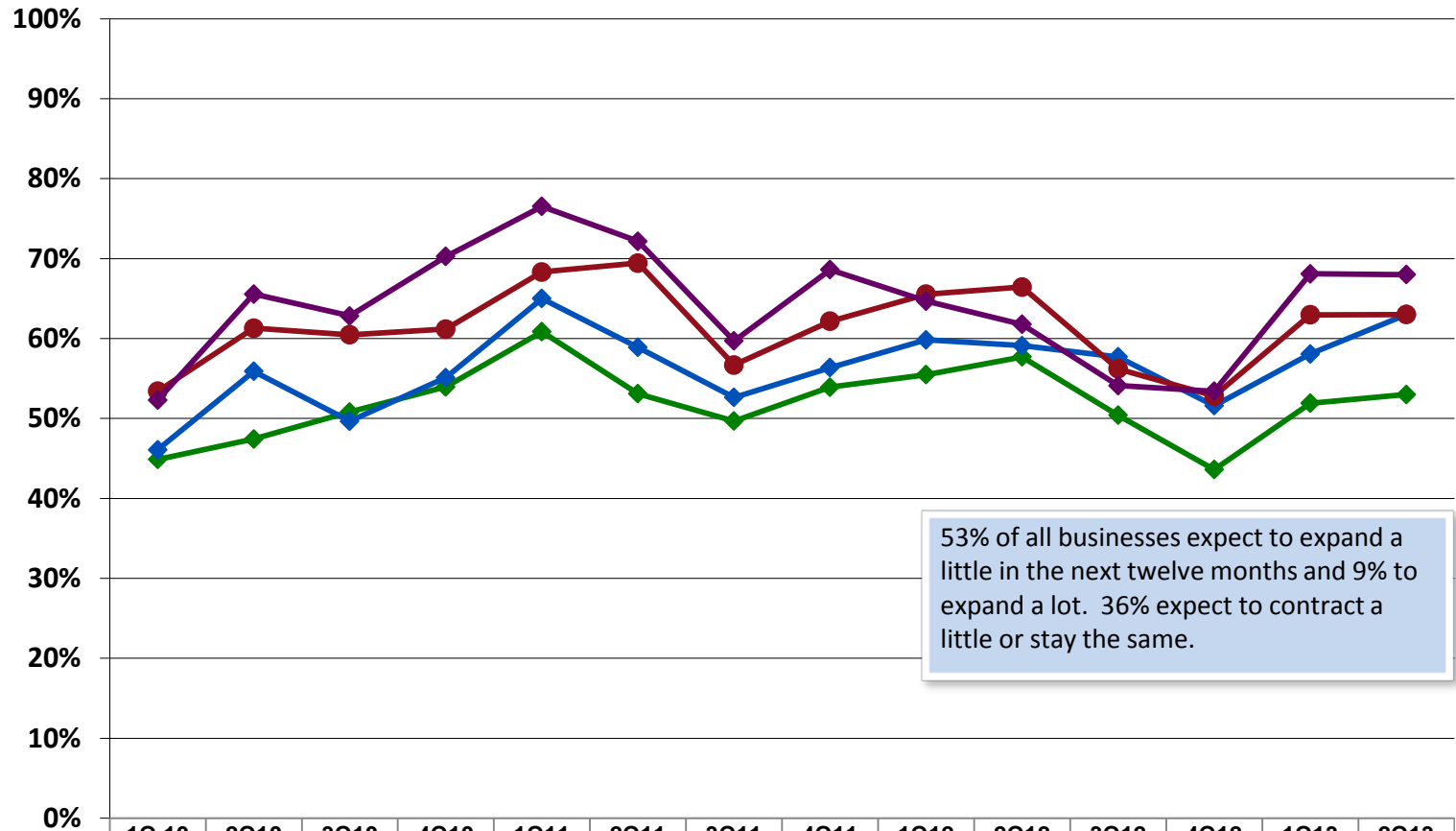
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months.



Midwest	50%	51%	46%	52%	63%	58%	42%	51%	60%	59%	46%	42%	51%	60%
Northeast	43%	55%	50%	52%	59%	50%	40%	37%	53%	52%	40%	40%	47%	56%
South	42%	50%	41%	49%	52%	53%	40%	44%	53%	51%	44%	38%	48%	54%
West	40%	52%	46%	45%	54%	51%	41%	42%	55%	54%	44%	41%	53%	62%

Expansion Plans by Business Size

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

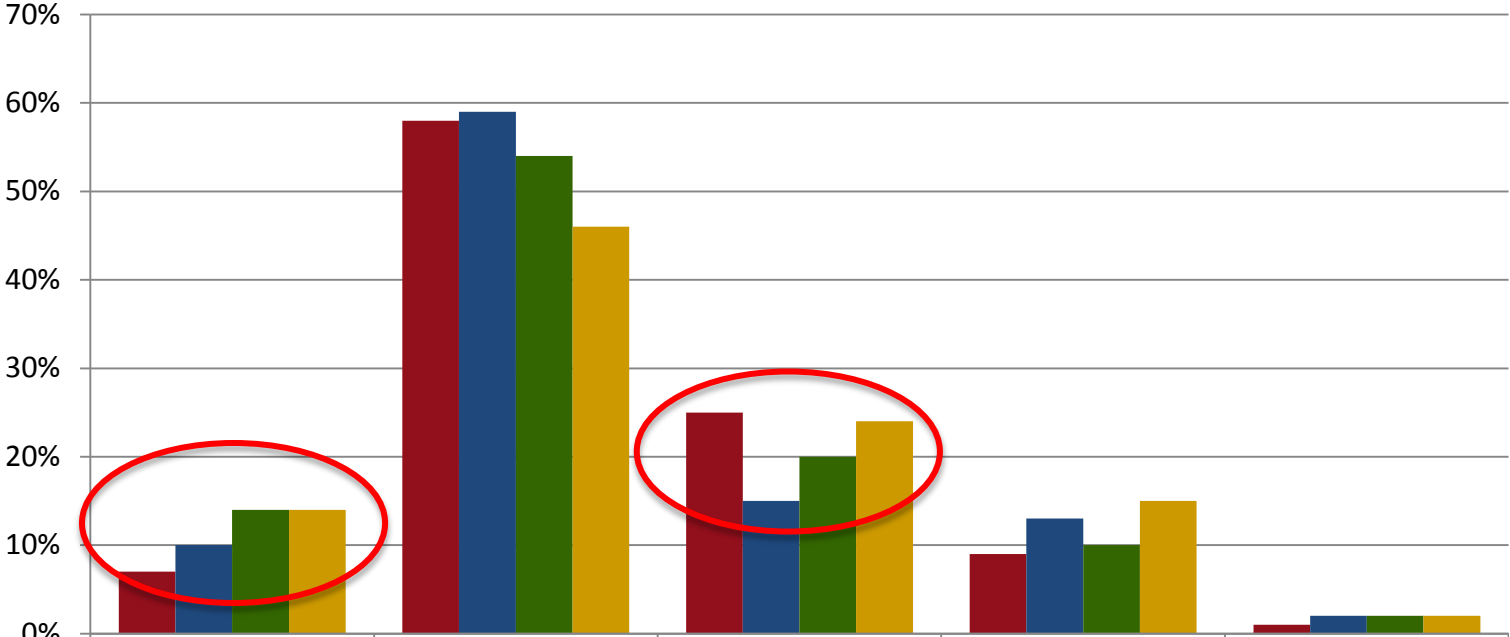


53% of all businesses expect to expand a little in the next twelve months and 9% to expand a lot. 36% expect to contract a little or stay the same.

	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%

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%	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%

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 compliance burdens and the impact of the proposed revenue recognition standard

Regulatory burden and company response

■ Healthcare reform tops list of compliance burdens, followed by federal and state tax authorities

- Over half (54%) of respondents indicate a moderate or greater impact on staff workload as a result of the Healthcare Reform Act; large companies are most likely to report significant impact
- Over one-third indicate moderate or greater impact from the IRS and from state and local taxing authorities

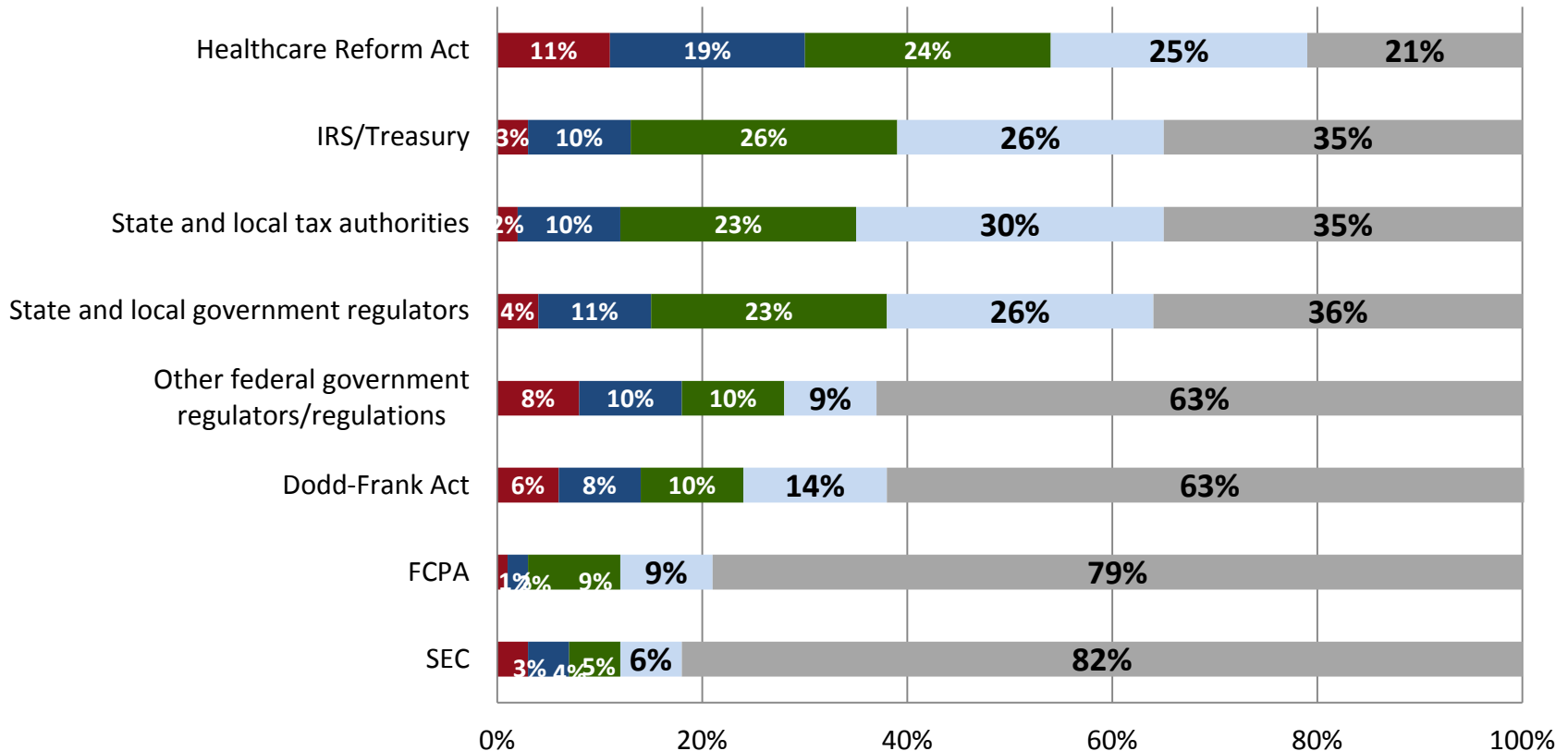
■ Existing employees have absorbed the burden for most companies

- 60% of companies indicated they have required more effort from existing employees
- A third have also utilized technology and a third have outsourced to outside vendors or contractors; only 25% have hired additional employees

Changes Due to Compliance Requirements

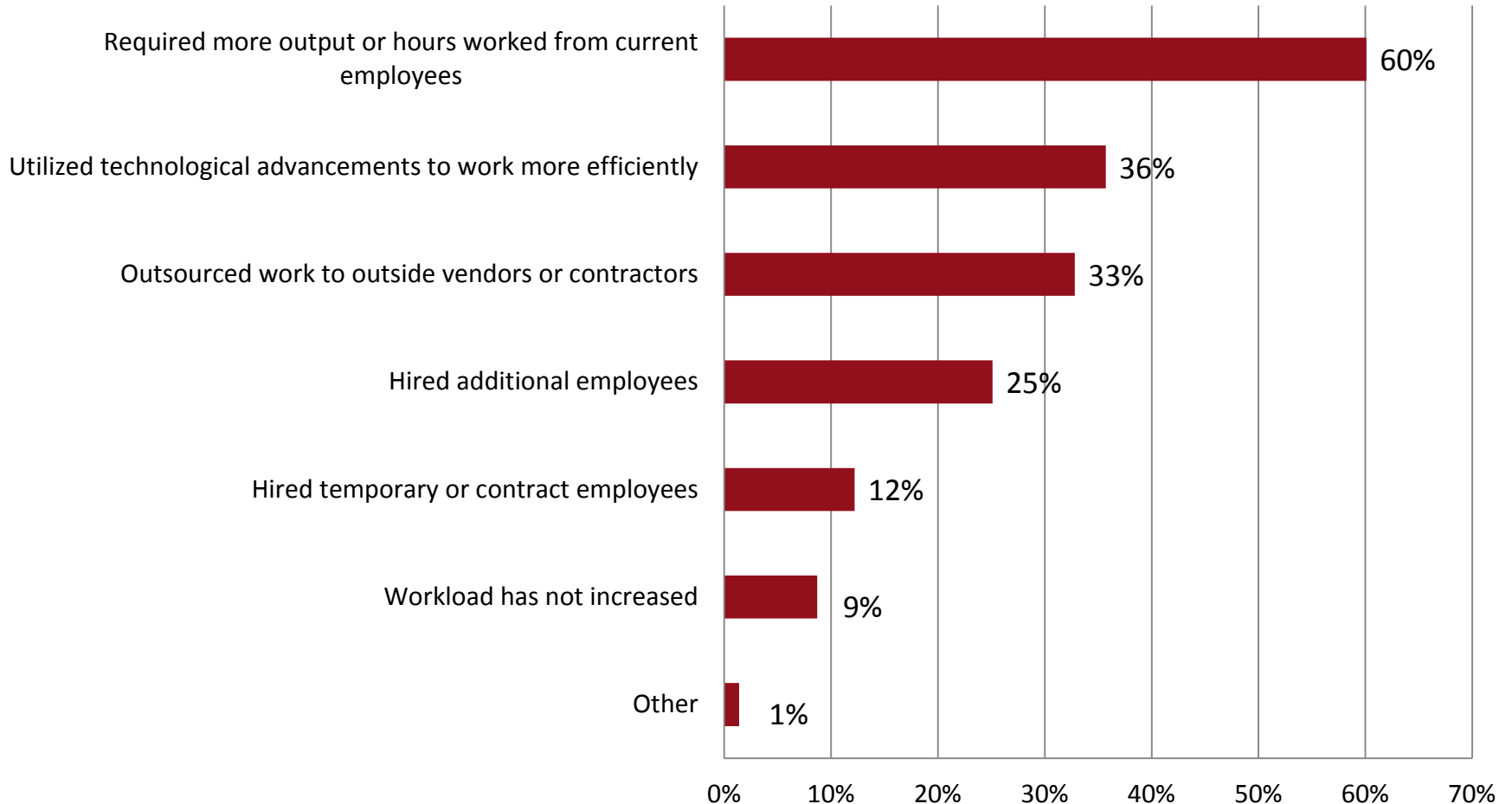
How would you characterize the change in your company's financial staff workload over the past five years in response to compliance requirements from the following regulators or regulations?

■ Very significant increase
 ■ Significant increase
 ■ Moderate increase
 ■ Slight increase
 ■ No change



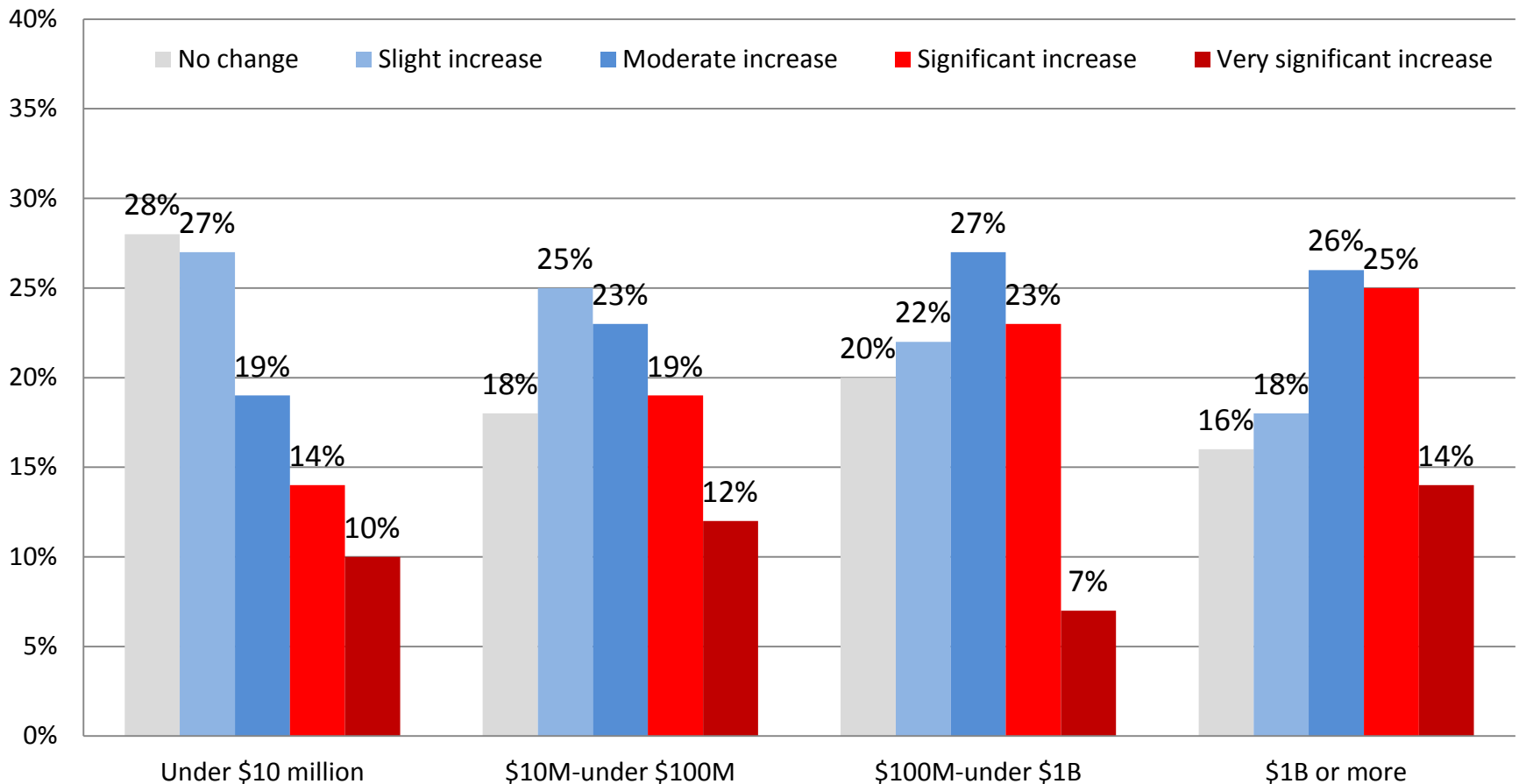
How Companies are Responding to Increased Regulatory Requirements

If your company's workload has increased in order to fulfill regulatory requirements, how has your company dealt with the increase? (check all that apply.)



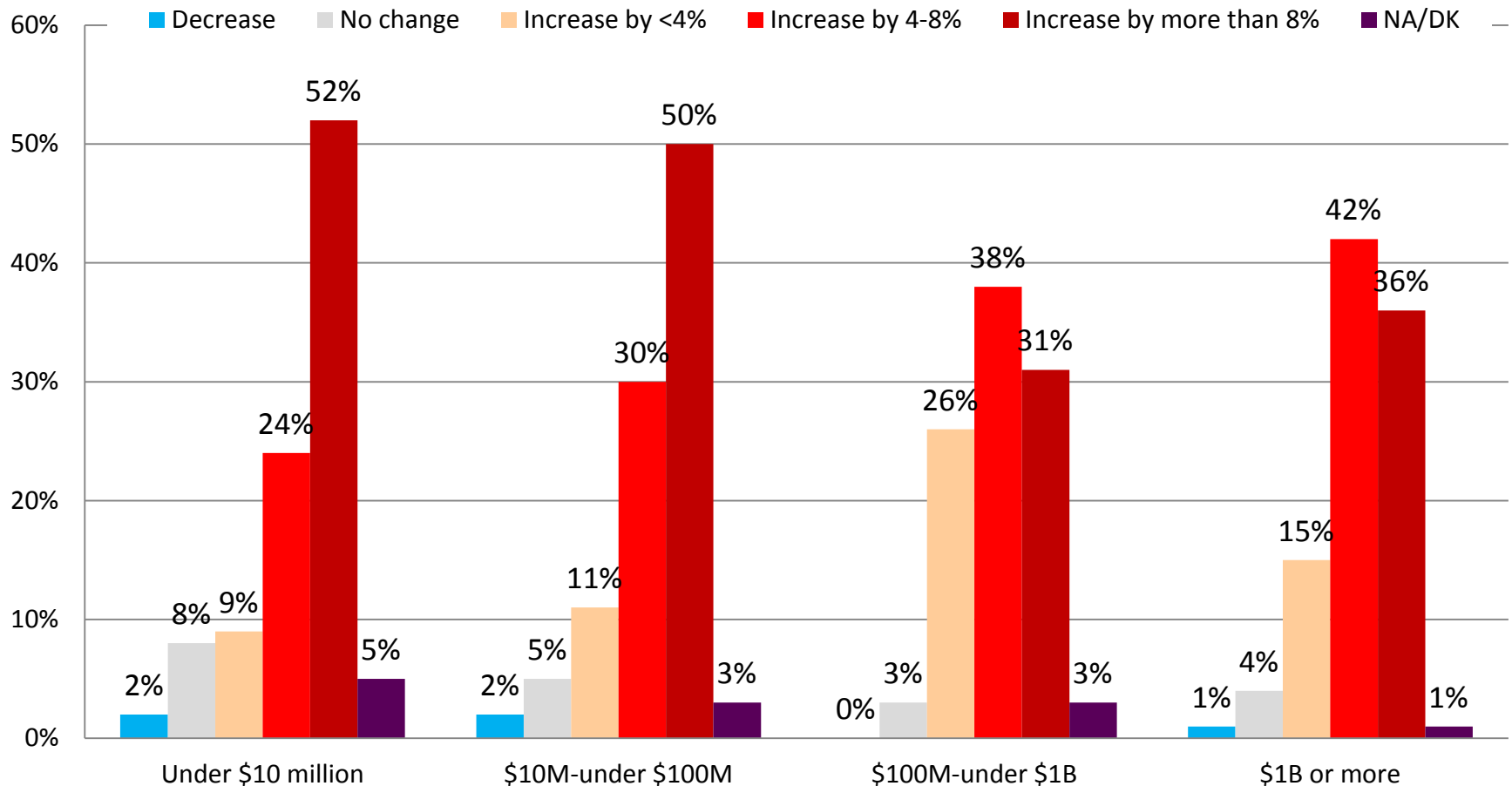
Anticipated Impact of Health Care Reform Act on Staff Workload

How would you characterize the change in your company's financial staff workload over the past five years in response to compliance requirements from (the following regulators or regulations: HRA)?



Anticipated Change in Health Care Costs in Next 12 Months

Thinking about the coming 12 months, please indicate the probable change for your organization for (Healthcare costs)



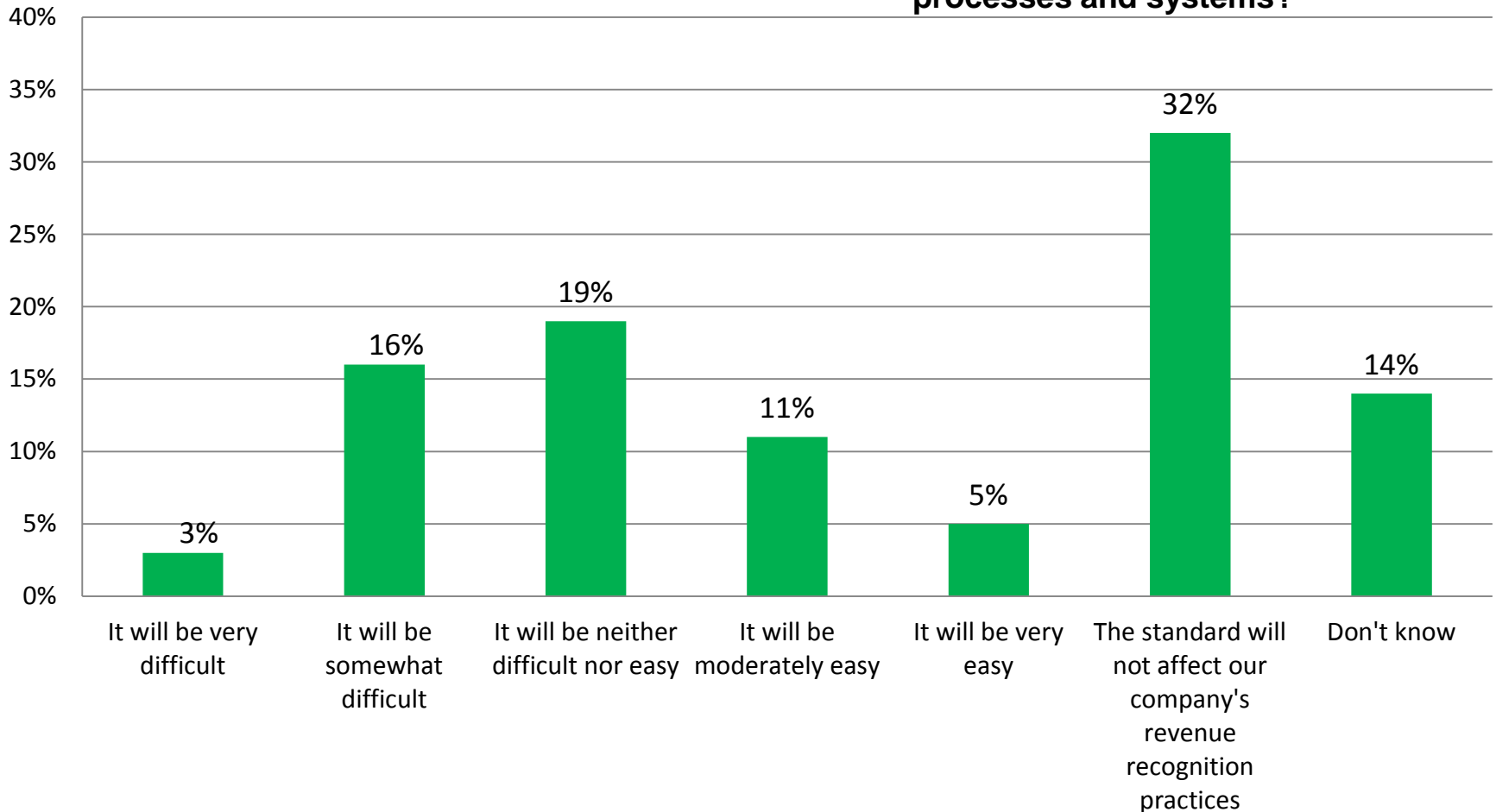
Impact of Proposed Revenue Recognition Standard

- **Assimilation of the standard not expected to be significant for most companies**
 - Only 3% say it will be very difficult
 - Roughly one-third (32%) say it will not impact their revenue recognition practices
 - Another 14% say they do not yet know the impact

- **The financial impact also not expected to be significant for most companies**
 - Only 2% are expecting to experience significant impact; 12% expect moderate impact
 - More than two-thirds (68%) expect limited or no impact
 - The remaining 17% do not yet know the impact on their financial statements

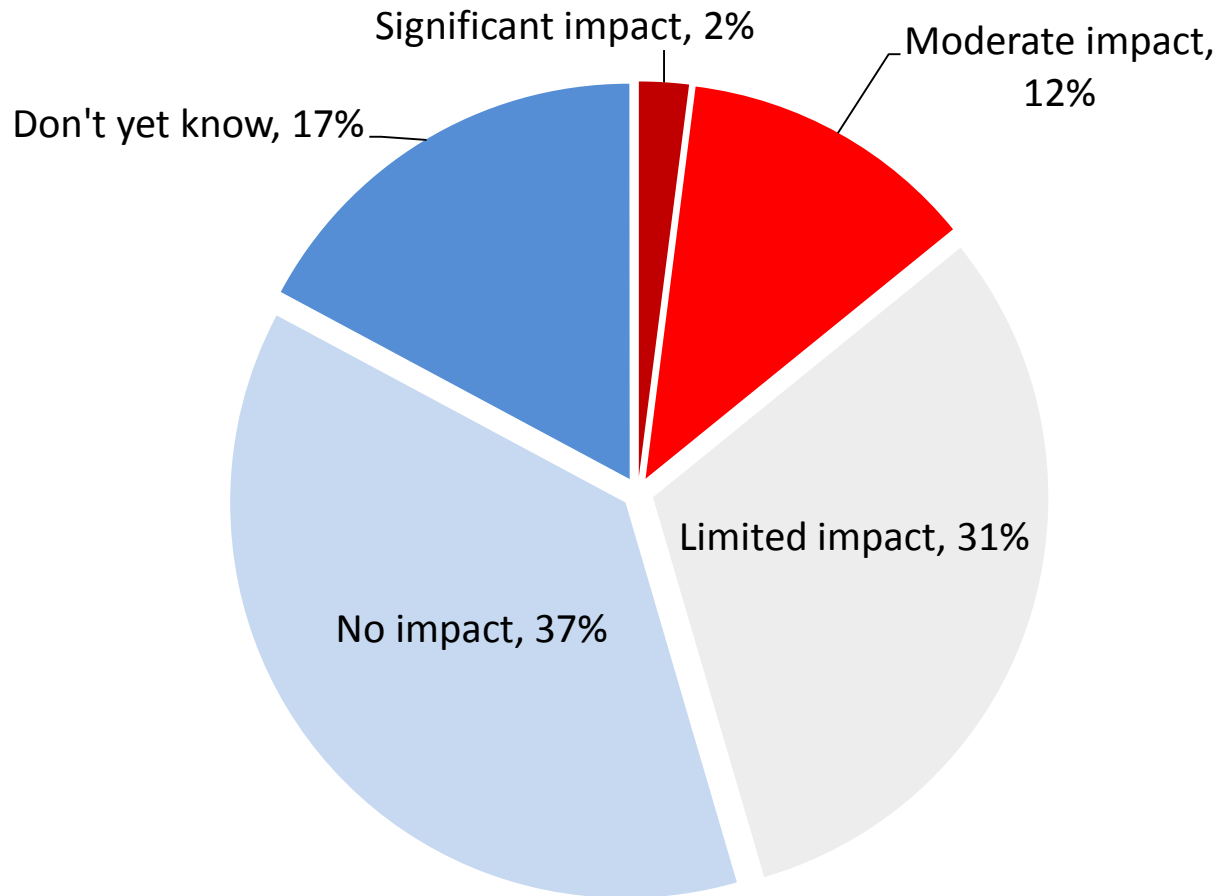
How Easily New Revenue Recognition Standard Will be Assimilated

How would you rate the ease or difficulty with which your company will assimilate the proposed new revenue recognition standard into its accounting and business processes and systems?



Anticipated Impact of the Proposed New Revenue Recognition Standard

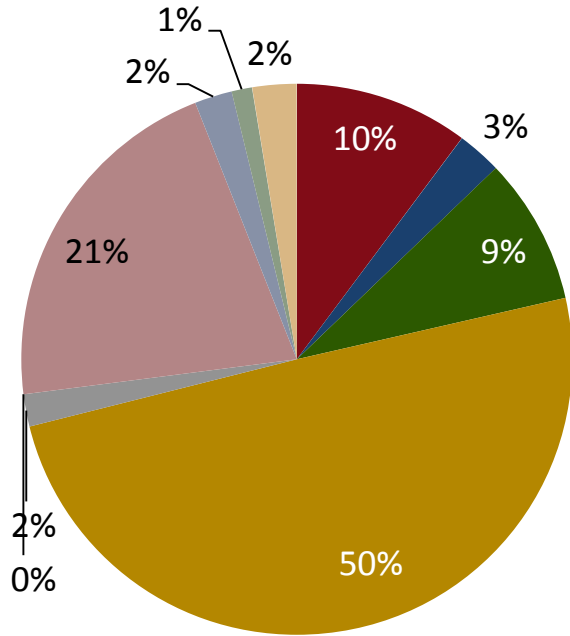
How would you characterize the anticipated impact on your financial statements from the proposed new revenue recognition standard?



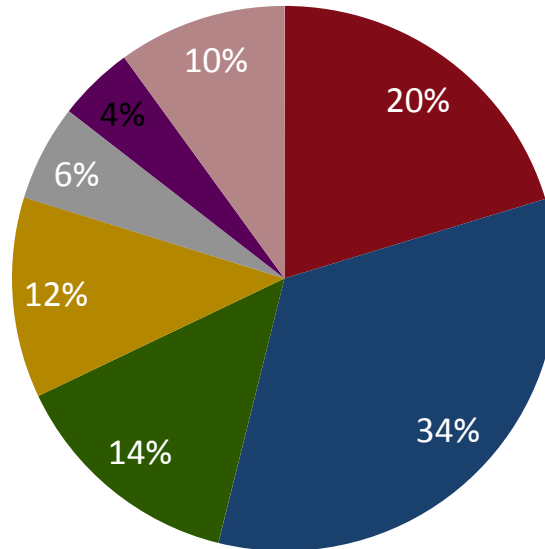
Demographics

Demographics

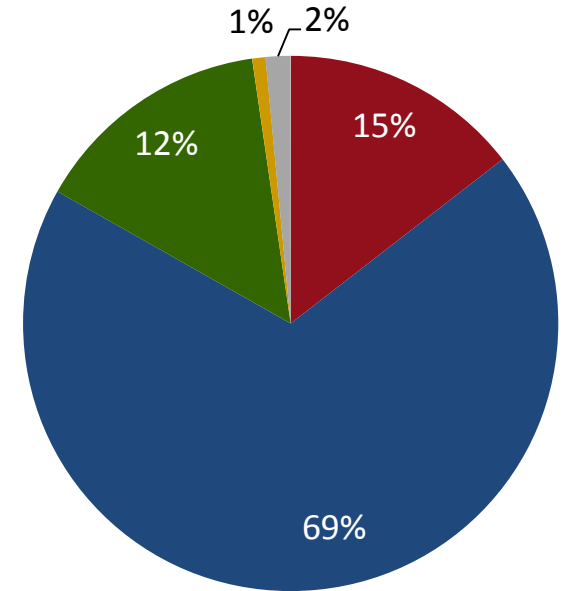
Position



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



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2Q 2013

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