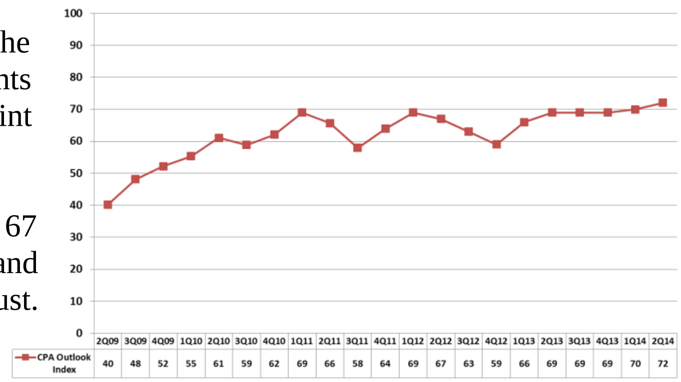
AICPA Business & Industry U.S. Economic Outlook Survey 2Q 2014

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 - ↑ 02

The CPA Outlook Index (CPAOI) increased again in the second quarter from 70 to 72 with each of the components improving with the exception of profits which eased a point from last quarter.



Optimism about the US Economy increased 2 points to 67 supporting slight improvement in organization optimism and expansion plans. Spending plans continue to be robust. Employment continues to be the softest component at 65.

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

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

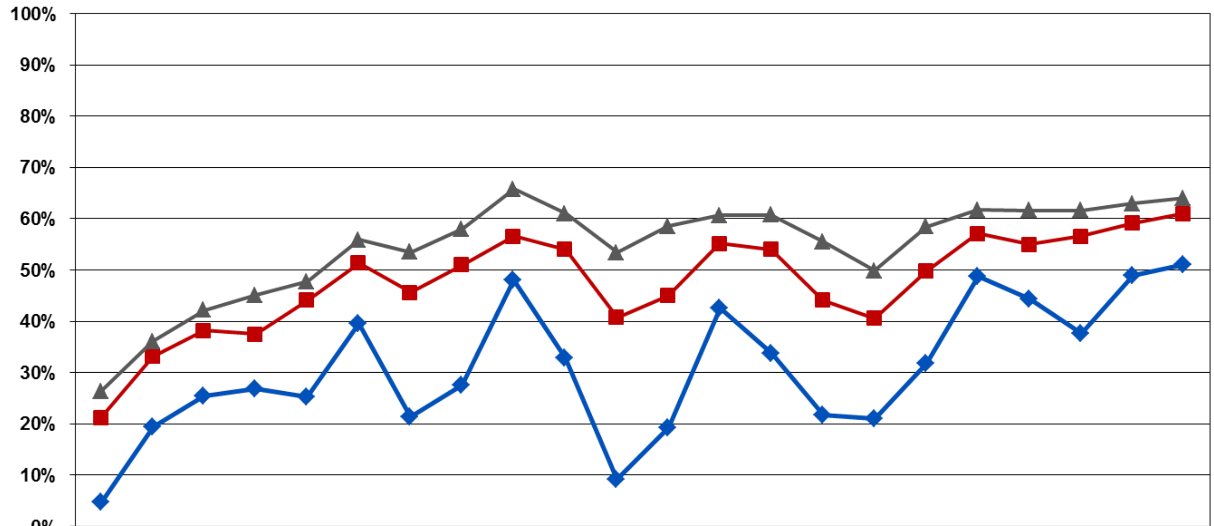
Improved view of US Economy bolsters outlook and plans for organizations

The number of financial executives optimistic about the US Economy passed the 50% mark in the second quarter for the first time since the recession, improving to 51%, up from 49% in the first quarter.

This improvement in the outlook for the economy has also bolstered the outlook for company prospects and their plans for expansion, spending and hiring. The number of companies optimistic about their own prospects improved from 59% to 61% and those with expansion plans from 63% to 64%.

Those who are optimistic most frequently cited the employment situation, improvement in the political/leadership situation and interest rates as the rationale for their optimism. Ongoing concern about the political/leadership situation was the reason cited most frequently by those who expressed pessimism about the economy.

Outlook for the US Economy, Organizations & Expansion



	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
US	5%	20%	26%	27%	25%	40%	21%	28%	48%	33%	9%	19%	43%	34%	22%	21%	32%	49%	44%	38%	49%	51%
Organization	21%	33%	38%	38%	44%	51%	46%	51%	57%	54%	41%	45%	55%	54%	44%	41%	50%	57%	55%	57%	59%	61%
Expansion	26%	36%	42%	45%	48%	56%	54%	58%	66%	61%	53%	59%	61%	61%	56%	50%	58%	62%	62%	62%	63%	64%

Concerns about inflation continue to be relatively low with only 32% of CPA respondents being concerned about the prospects for inflation over the next six months, slightly up from 29% in the first quarter; only 6% expressed concerned about deflation.

Labor costs, which surpassed raw materials costs as the factor representing the most significant risk to business in the second quarter 2013, continue to be the greatest concern and increased again in the second quarter of 2014 to 38%. Concern about raw material costs eased again in the second quarter to 23%. Concern about interest rates as the most significant risk also declined in the second quarter to only 17% of respondents, down from approximately a quarter of respondents for the past three quarters.

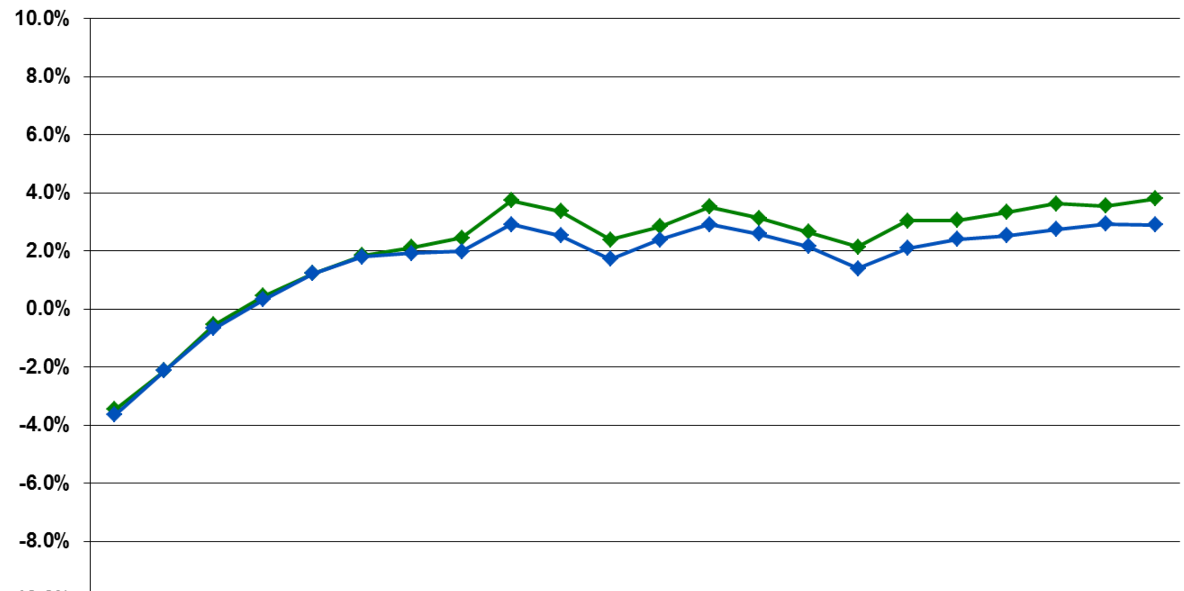
Key Performance Indicators

Expectations for revenues improve, headcount plans ease slightly, spending plans robust

Expectations for increased revenues improved from 3.6% to 3.8% in the second quarter. While the index component (based on the *number of companies* expecting increases or decreases) for profits declined a point and the employment component gained a point, the estimated projection of increased profits actually remained unchanged at 2.9%, and the projected headcount increase eased from 1.5% to 1.3%.

On a positive note, estimated salary and benefits costs also declined a point from 2.2% to 2.1%, and anticipated healthcare cost increases declined to 5.7%, the lowest rate since the third quarter 2009.

Expectations for Revenue and Profits



	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Revenue	-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%	3.3%	3.6%	3.6%	3.8%
Profit	-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%	2.5%	2.7%	2.9%	2.9%

However, while the expectation for the increase in prices charged improved from 1.3% to 1.8%, they are not anticipated to keep pace with other input costs which are anticipated to increase at a rate of 2.4%, up from 1.8% last quarter.

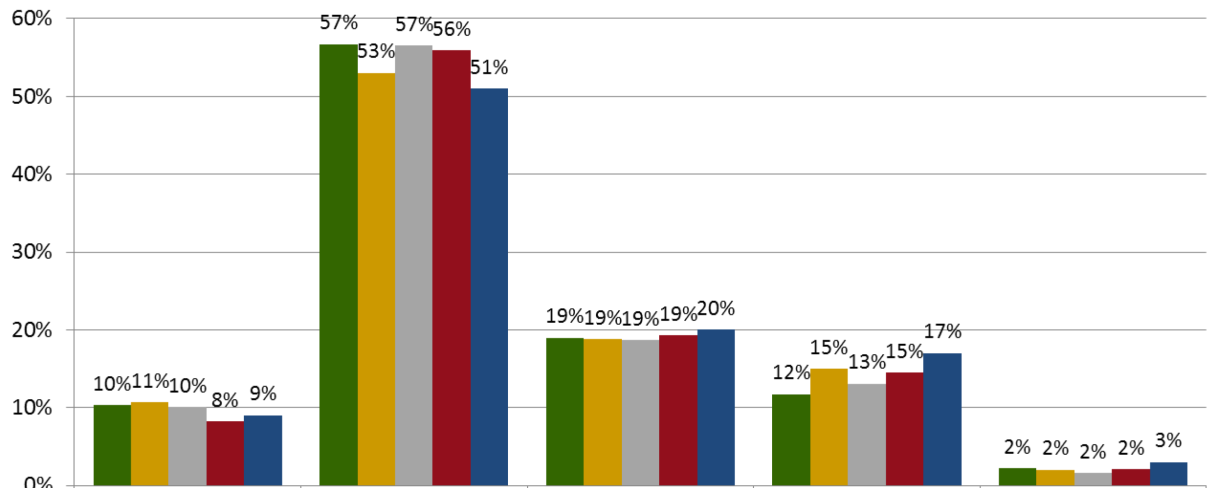
Spending plans continue to be robust. IT spending continues to be the strongest category of spending, easing only to 3.1% after improving in the first quarter to a post-recession high of 3.2%. Other capital spending plans and training also improved to new highs of 2.4% and 1.8%, respectively. Marketing spending and R&D projections remained relatively constant at 1.6% and 1.0%.

Hiring Plans

Percentage of companies planning to hire recovers

Slightly more than half of all companies (51%) continue to say they have the right number of employees. The number of companies that say they have too many employees remained relatively constant with recent quarters at 9%. The percentage of companies that are reluctant to hire increased a point from 19% in the first quarter to 20% in the second quarter. However, the number of companies with too few employees that are planning to hire increased to 17% in the second quarter which is up from 15% in the first quarter of 2014, and only 12% in the second quarter a year ago.

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
2Q13	10%	57%	19%	12%	2%
3Q13	11%	53%	19%	15%	2%
4Q13	10%	57%	19%	13%	2%
1Q14	8%	56%	19%	15%	2%
2Q14	9%	51%	20%	17%	3%

Industry, Region and Business Size Outlook

Optimism up overall, but mixed across sectors; more smaller companies expecting to expand

Technology maintained its spot as the most optimistic sector with 72% of its respondents being optimistic. Although their optimism percentage eased a bit in the second quarter from 73% to 69%, the construction industry took over the top spot in hiring with an anticipated headcount increase of 3.3% over the course of the next twelve months. This is up from an expected increase of 2.8% in the first quarter 2014 and 2.1% in the second quarter 2013. This sustained improvement seems significant, especially in light of the fact that in the second quarter of 2012 the construction industry was projecting a headcount *decline* of 0.6%.

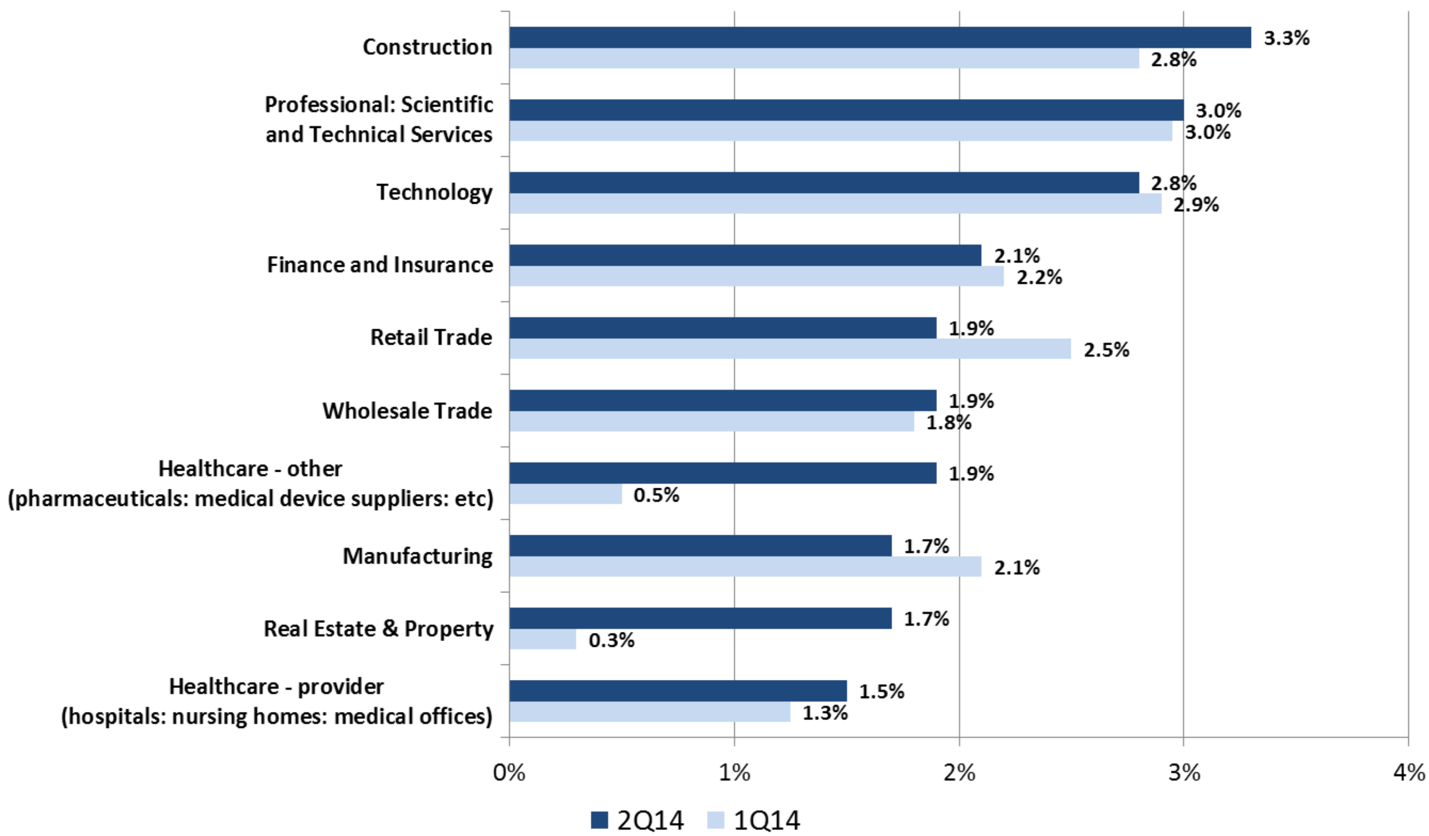
On the other hand, manufacturing hiring plans eased from 2.1% to 1.7% as the proportion of manufacturing companies optimistic about their prospects declined from 66% to 62%.

Finance and insurance fell off again to 64% being optimistic after jumping to 71% in the first quarter. Likely consistent with the improvement in the construction industry, the real estate sector continued its rebound increasing from 64% to 69% optimistic.

Retail trade also improved again from 59% to 62% optimistic; however, wholesale trade continues to lag, improving only a point to 49% optimistic in the second quarter.

While the healthcare sector continues to be the least optimistic, the second quarter shows improvement. Healthcare providers made a significant leap in optimism from only 34% in the first quarter to 48% now being optimistic about their prospects. In healthcare-other, which includes device providers, pharmaceuticals and other healthcare-related companies, optimism also improved significantly from 43% to 55%. While hiring in healthcare providers is expected to improve slightly, healthcare-other rebounded from an expected headcount increase of only 0.5% in the first quarter to 1.9% in the second quarter.

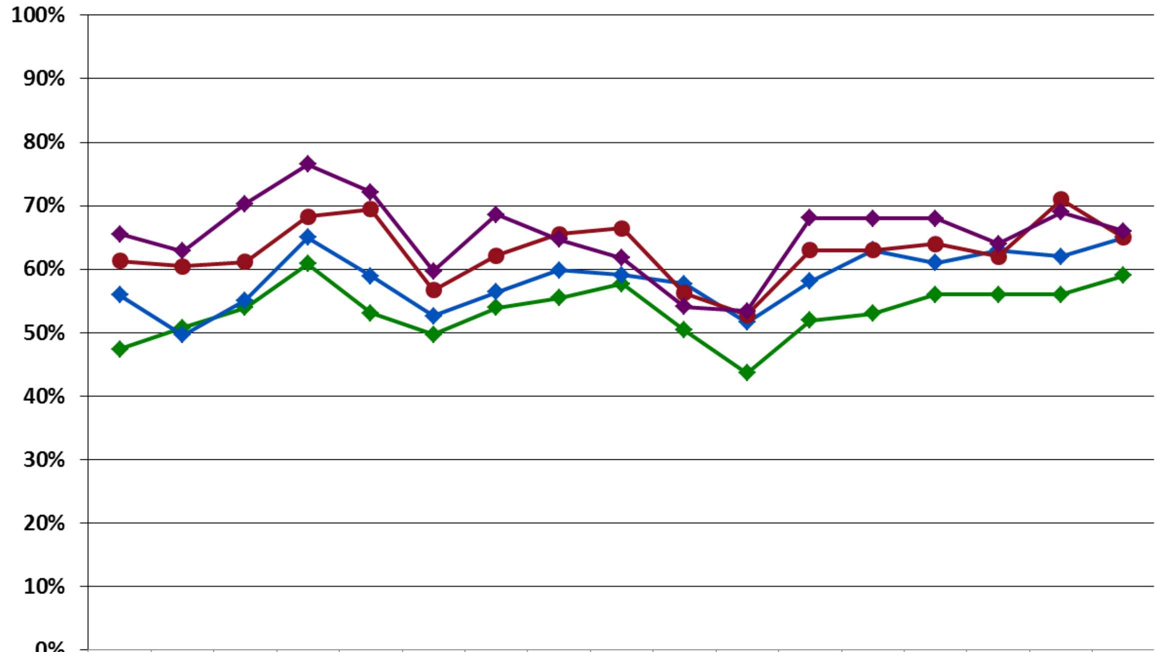
Expected Employment Change by Industry



Optimism in the South and the Midwest improved significantly this quarter, while the West declined after making a significant jump in the first quarter and the Northeast eased slightly. The percentage of optimistic executives in the South improved from only 53% to 62%. In the Midwest the improvement was from 55% to 60%. The West declined from 70% to 64% and the Northeast from 63% to 61%.

Perhaps another bright spot in the overall outlook, expansion plans for smaller companies have improved. The percentage of companies with revenues less than $10 million with plans to expand increased to 59% in the second quarter which is the highest percentage for this segment since the first quarter of 2010.

Expansion Plans by Business Size



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

Liquidity

Liquidity and capital plans essentially unchanged; credit continues to be more challenging for small companies

The proportion of companies indicating they have about the right amount of liquidity increased slightly in the second quarter from 47% to 49%. The percentage indicating they have more liquidity than they need and plan to deploy their excess declined slightly from 15% to 12%. Those with excess liquidity who remain reluctant to deploy their excess remained relatively consistent at 19%, up only a point from 18% in the first quarter.

The percentage of companies planning to raise capital increased slightly from 10% to 11%. The number of companies that need capital but find credit availability and/or pricing to be a barrier declined a point from 10% to 9%.

Overall, most executives (56%) expect financing challenges to be about the same as last quarter. The number of respondents expecting it to be more difficult to obtain their necessary financing declined from 12% to 9%, while those who expect it to be less difficult declined from 10% to 9%.

From a size perspective, 11% of companies with less than $10 million in revenues expect availability and/or pricing to be a barrier while only 4% of companies with revenues greater than $1 billion face this challenge.

Top Challenges

Employee costs and talent issues present increasing challenges

Regulatory requirements/challenges continue to hold the top spot in terms of challenges facing organizations. Concern about domestic economic conditions continues to ease, receding again from the third to the fourth-ranked challenge. However, employee and talent issues are presenting as a challenge to more companies. Employee and benefits costs continue to be the second-ranked challenge and availability of skilled personnel advanced again this quarter to the third-ranked slot. In addition, staff turnover has surfaced this quarter as the tenth-ranked challenge.

Domestic economic conditions, domestic competition, and domestic political leadership fill out the fourth, fifth and sixth slots. Developing new products/services/markets, stagnant/declining markets, and changing customer preferences maintained their seventh, eighth and ninth rankings.

Top Challenges Facing Organizations

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

Survey Background

The survey was conducted of AICPA Business & Industry members between May 13 and May 29, 2014. CFOs comprised 34% of the respondents, 16% were Controllers, 15% were CEOs or Presidents, 6% were VPs, 2% were COOs; the remainder were Directors or other executives. Sixty-two percent of respondents came from privately-owned entities, 17% from publicly-listed companies, 13% from not-for-profits, 5% from government and 3% from other. Fourteen percent came from organizations with annual revenues of $1 billion or more, 17% from organizations with $100 million to under $1 billion in annual revenues, 37% from organizations with $10 million to $100 million and 28% from organizations with under $10 million in revenues (numbers may add to more than 100% due to rounding).