



Association
of International
Certified Professional
Accountants®

AICPA Business and Industry Economic Outlook Survey

Detailed Survey Results: 2Q 2017

Survey Background

- Conducted between May 2-17, 2017
- Quarterly Survey
- CPA decision makers (primarily CFO's, CEOs and Controllers)
- AICPA members in Business & Industry only
- 726 qualified responses

Survey Highlights

75

Overall index eases a point

Down from 76 in Q1; up from 68 year-to-year from Q2, 2016

Slight declines, or flat across most components

Employment and IT spending continue to inch up

64%

Now optimistic about U.S. Economy

Outlook for economy gives up 5% from new high mark of 69% in Q1

Retail trade rebounds to 58%, from only 38% in Q1

Healthcare also improves from 43% to 52%

Other sectors decline slightly

64%

Have expansion plans, but size matters

Overall, expansion plans ease only slightly from 67% to 64%

Percentages of SME and mid-sized companies with expansion plans fall off sharply from Q1

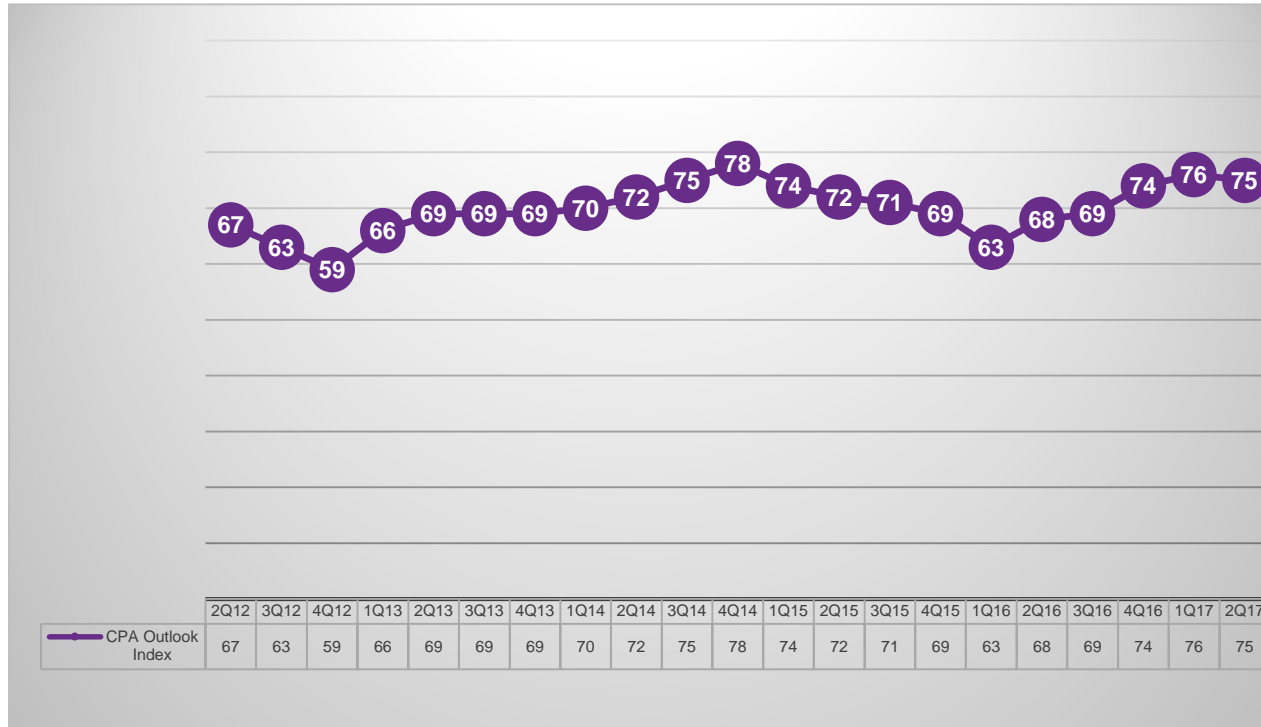
Percentages of larger mid-sized and those with revenues > \$1b increase slightly

CPA Outlook Index (CPAOI)

- 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.

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.

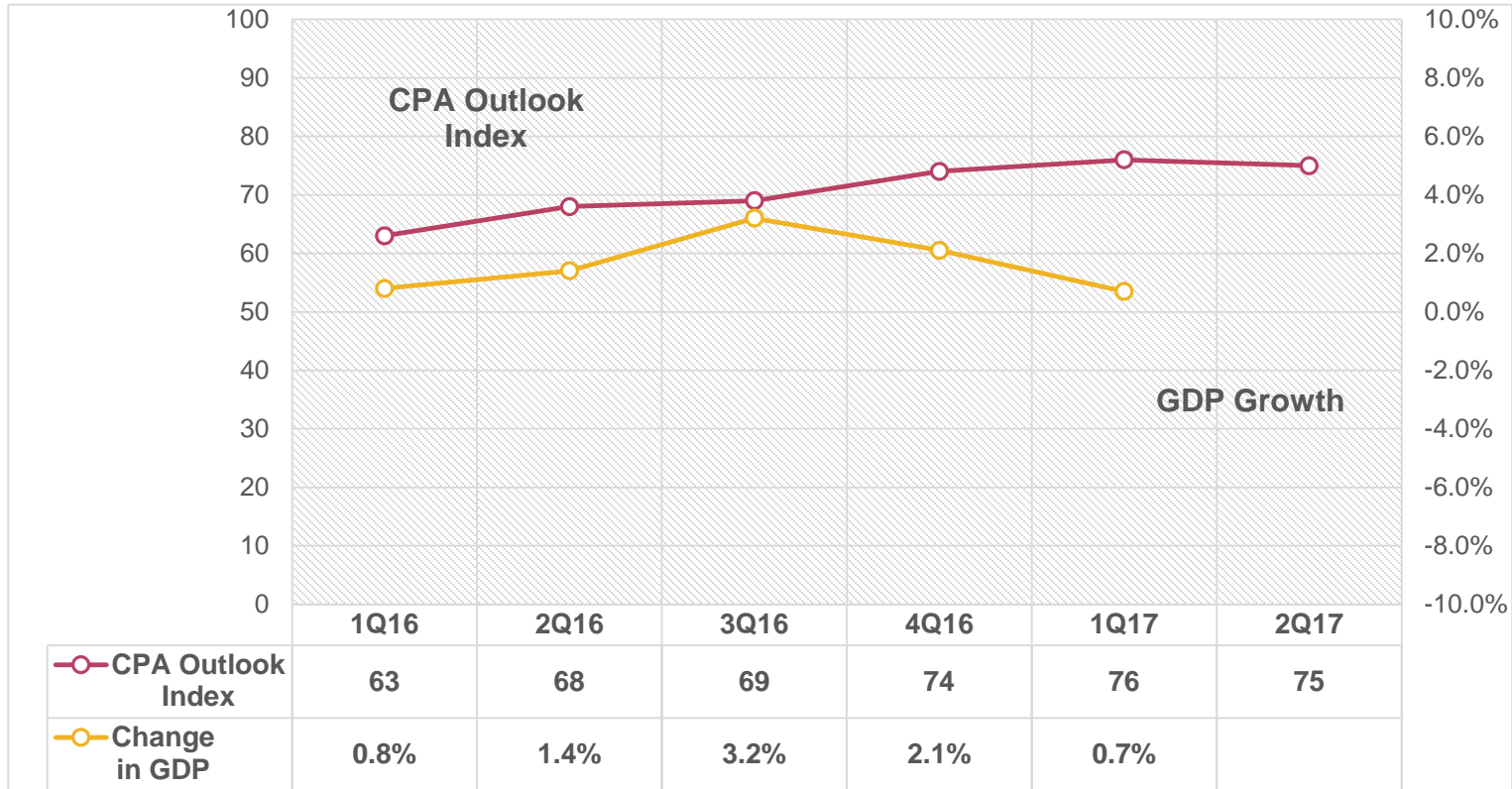
CPA Outlook Index (CPAOI)



CPA Outlook Index (CPAOI)

Component	2Q16	3Q16	4Q16	1Q17	2Q17	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	59	58	76	79	77	↓02	↑18
Organization Optimism	68	68	74	77	76	↓01	↑8
Expansion Plans	69	72	74	77	76	↓01	↑7
Revenue	74	75	78	81	79	↓02	↑5
Profits	63	69	74	74	72	↓02	↑11
Employment	63	66	68	71	72	↑01	↑9
IT Spending	76	75	77	78	80	↑02	↑04
Other Capital Spending	70	71	73	71	72	↑01	↑02
Training & Development	67	70	71	73	73	→00	↑06
Total CPAOI	68	69	74	76	75	↓01	↑07

CPA Outlook Index (CPAOI) vs. GDP



U.S. Economy, Organization and Inflation

64%

Optimism for U.S. economy declines from Q1 high of 69%

Chaos and uncertainty noted by both optimists and pessimists

Hopes for regulatory relief, tax reform, and infrastructure spending continue

Concerns expressed about i-rates, possibility of RE and stock markets being overvalued, and proposed changes more aimed at large scaled entities

64%

Organization optimism falls slightly

Optimism for respondent's own organization eases 2 points from 1Q high of 66%

The percentage of companies with expansion plans also eased from 67% in Q1 to 64%

The percentage of companies expecting their businesses to contract remained constant with Q1 at 13%

31%

Now concerned about inflation

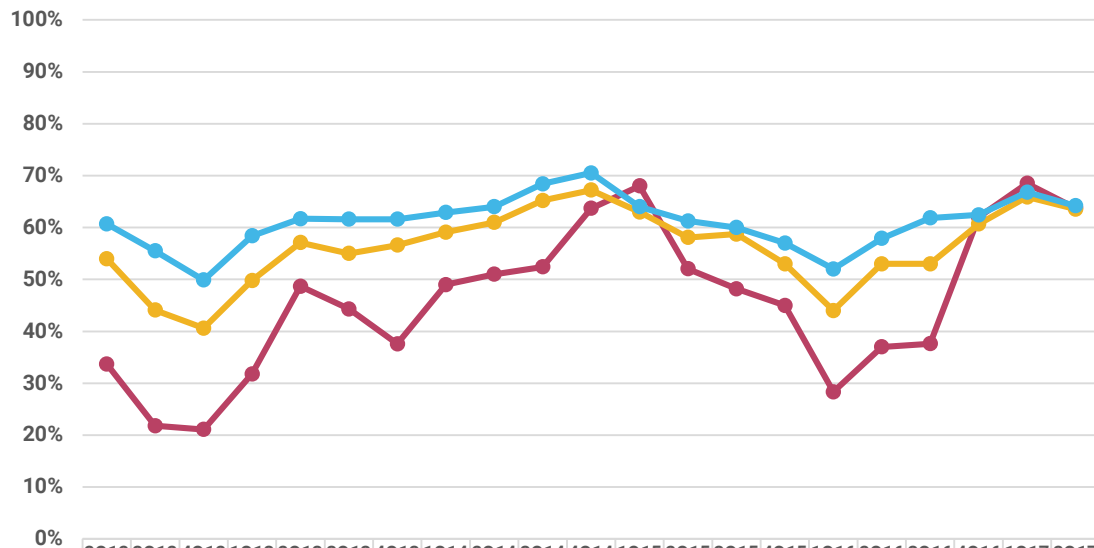
Concern about labor costs continues to be most significant, increasing from 40% to 42%

Raw material cost increases also increase another point to 25%, up from 24% in Q1, and 20% in Q4, 2016

Energy cost concerns constant at 8%

Interest rate worries up from 21% to 22%

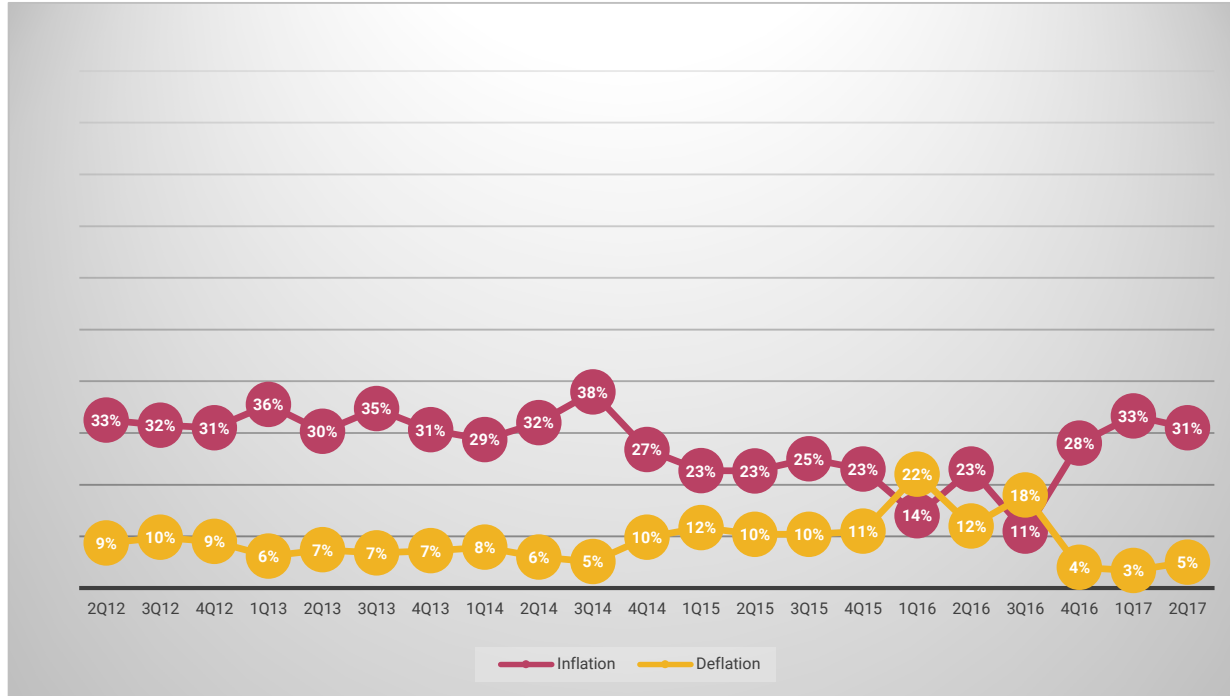
Optimism & Expansion



	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
U.S.	34%	22%	21%	32%	49%	44%	38%	49%	51%	52%	64%	68%	52%	48%	45%	28%	37%	38%	62%	69%	64%
Organization	54%	44%	41%	50%	57%	55%	57%	59%	61%	65%	67%	63%	58%	59%	53%	44%	53%	53%	61%	66%	64%
Expansion	61%	56%	50%	58%	62%	62%	62%	63%	64%	68%	71%	64%	61%	60%	57%	52%	58%	62%	62%	67%	64%

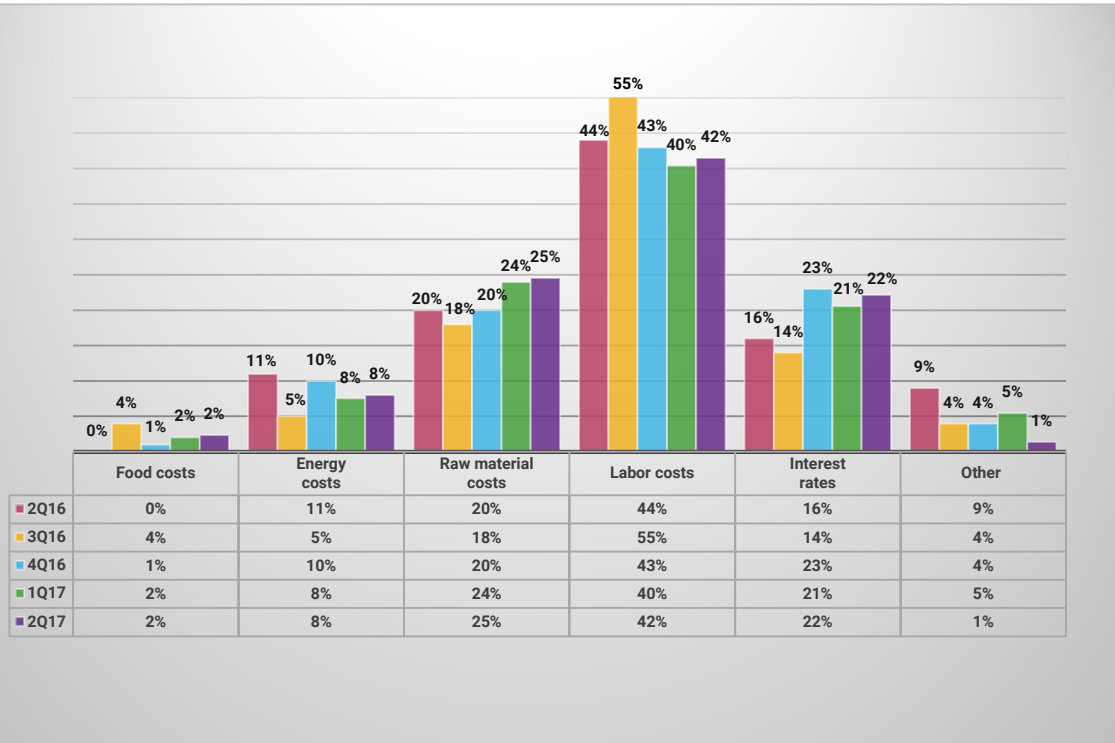
The economic outlook for the U.S. economy, your organization, and the expansion plans over the next 12 months

Inflation or Deflation



For your business, over the next 6 months, which are you more concerned about? Inflation or deflation?

Inflationary Risk Factors



Which of the following potential inflationary factors represents the most significant risk to your business?

Key Performance Indicators

Revenues and Profits

Revenue and Profit projections both give back some Q1 gains

Expected revenue increase for coming twelve months declines from 4.3% in Q1 to 3.9% in Q2

Profit projections also decline from 3.5% in Q1 to 3.2%

Hiring and Employment

Headcount plans remain constant; costs ease slightly

Anticipated rate of headcount increase for the coming year remained constant at 1.8%

Salary and benefit costs eases a tenth from 2.3% in Q1 to 2.2% in Q2

Healthcare cost projections also to fall another tenth from 5.6% in Q1 to 5.5% in Q2

Spending Plans

IT, Other Capital and Training improve; Marketing and R&D ease slightly

Spending for IT improves to a 3.2% projected increase in Q2, up from 3.0% in Q1

Other capital spending rate increases from 2.6% to 2.8%

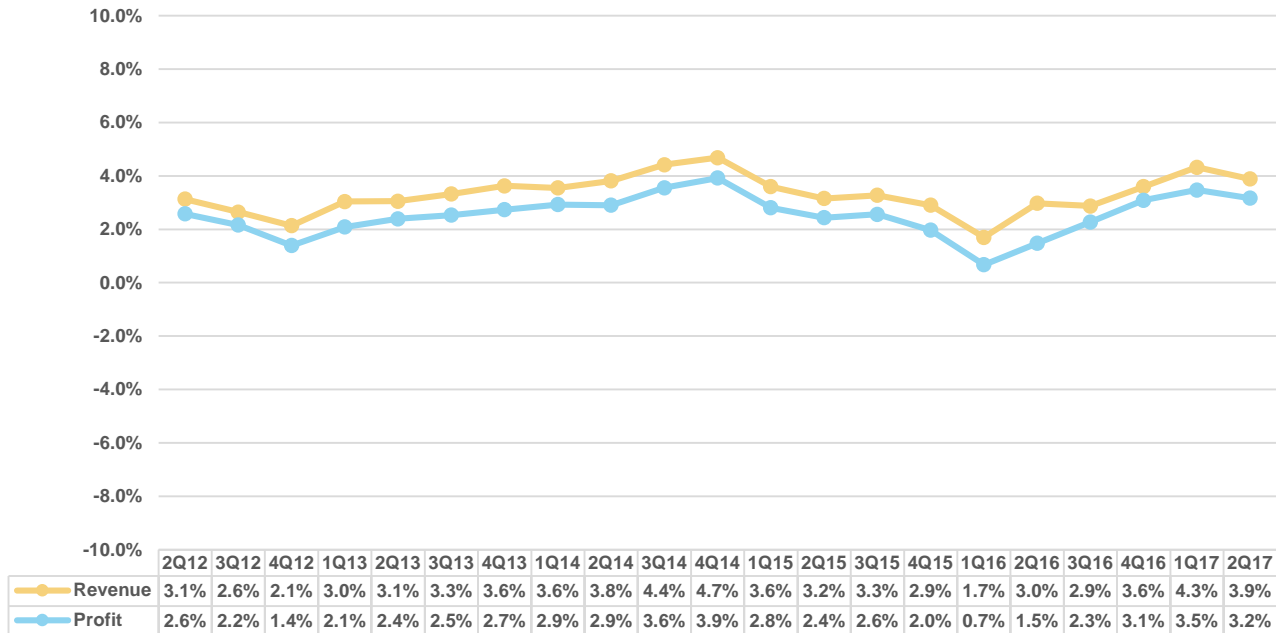
Training also ticks up from to 1.8% to 2.0%

Marketing eases from 1.9% in Q1 to a 1.8% rate in Q2

R&D spending returns to 1.5%, after increasing to 1.7% in Q1

Key Performance Indicators

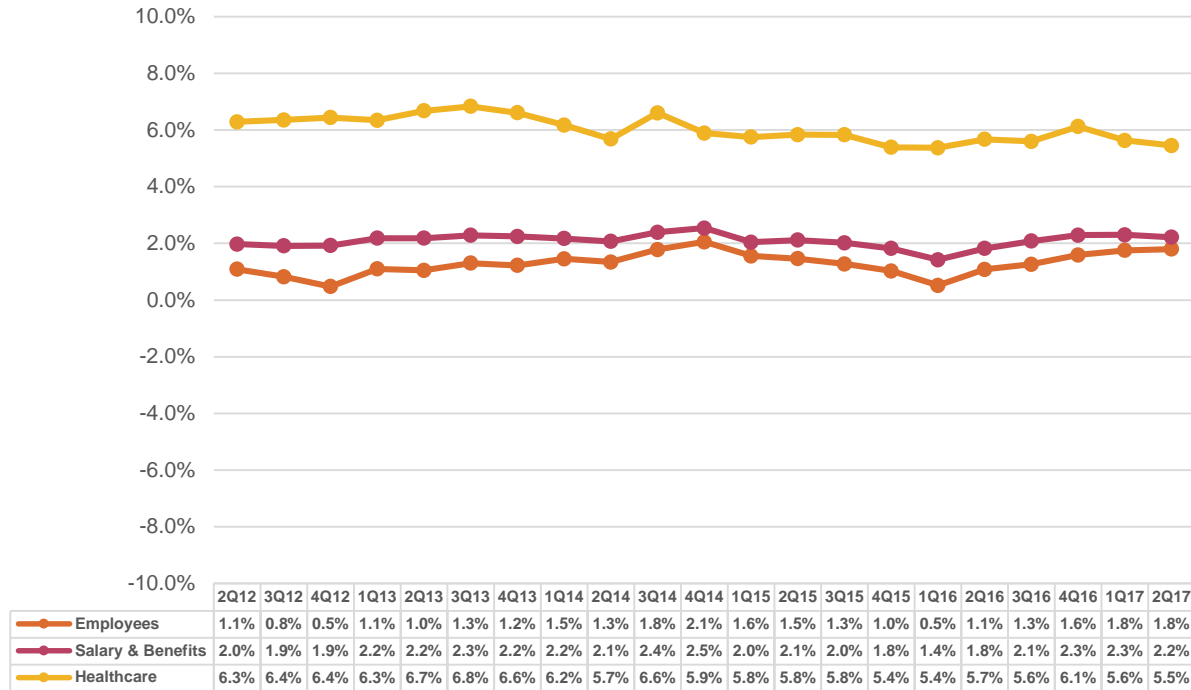
Expected Growth in Revenue and Profits



Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators: please select one growth rate for each item, from increasing by more than 10% to decreasing by more than 10%....

Key Performance Indicators

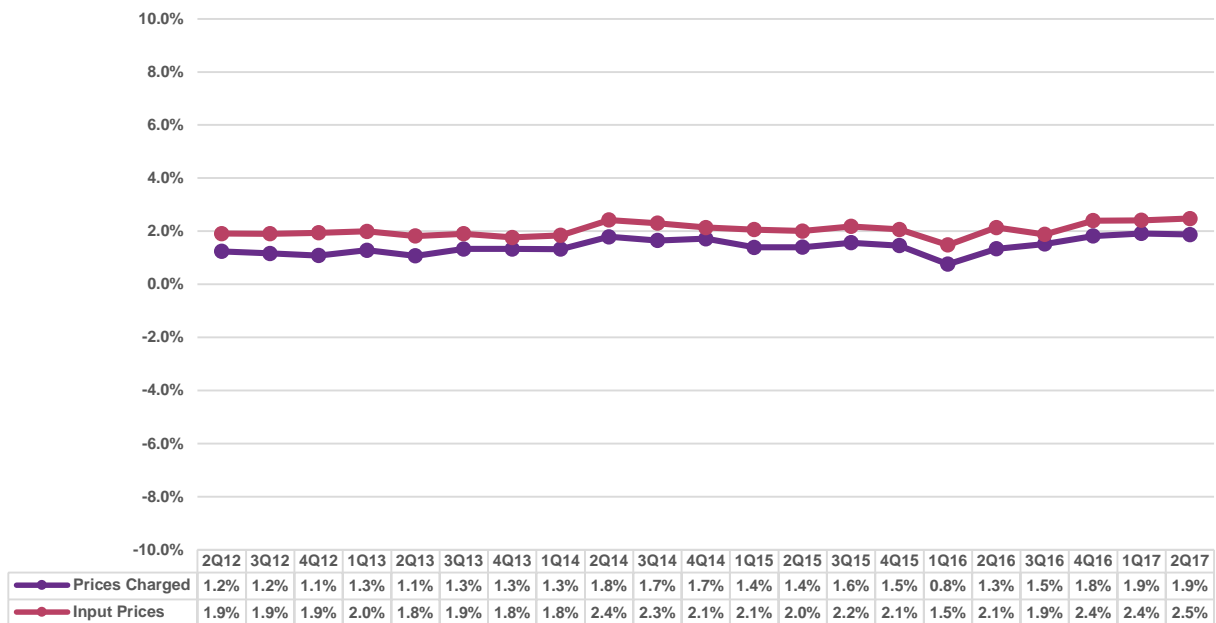
Employees, Salary & Benefits, and Healthcare Costs



Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators: please select one growth rate for each item, from increasing by more than 8% to decreasing by more than 8%....

Key Performance Indicators

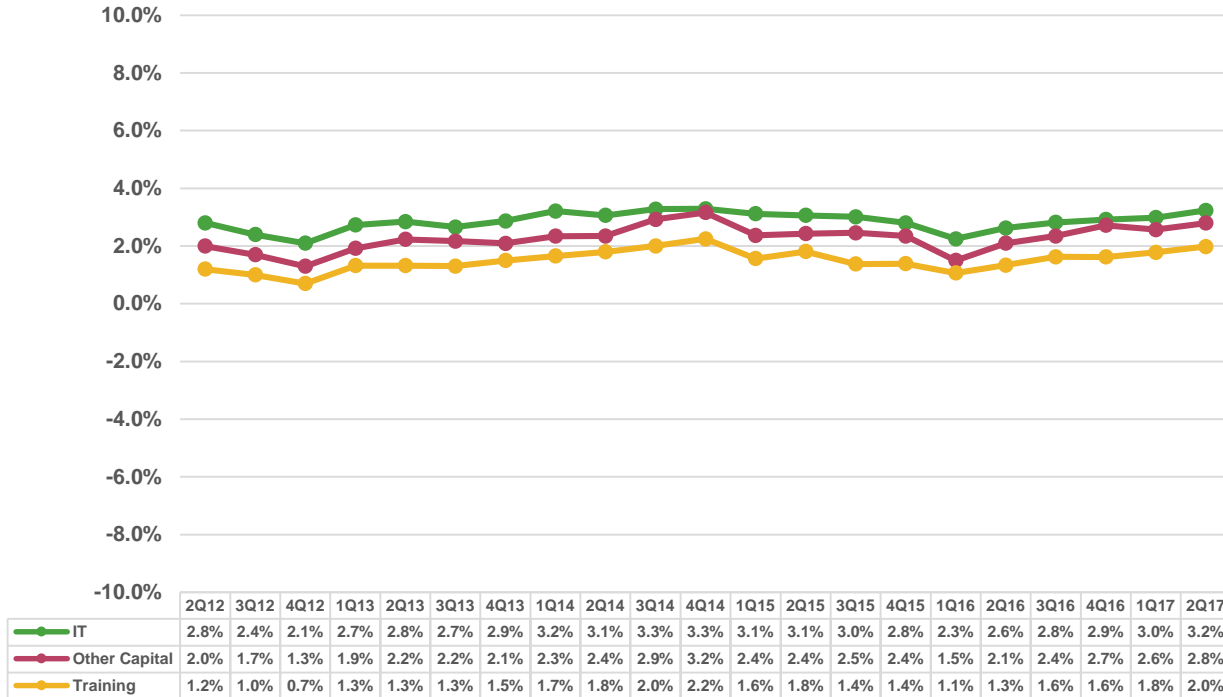
Pricing & Other Costs Average Change Expected



Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators: please select one growth rate for each item, from increasing by more than 8% to decreasing by more than 8%....

Key Performance Indicators

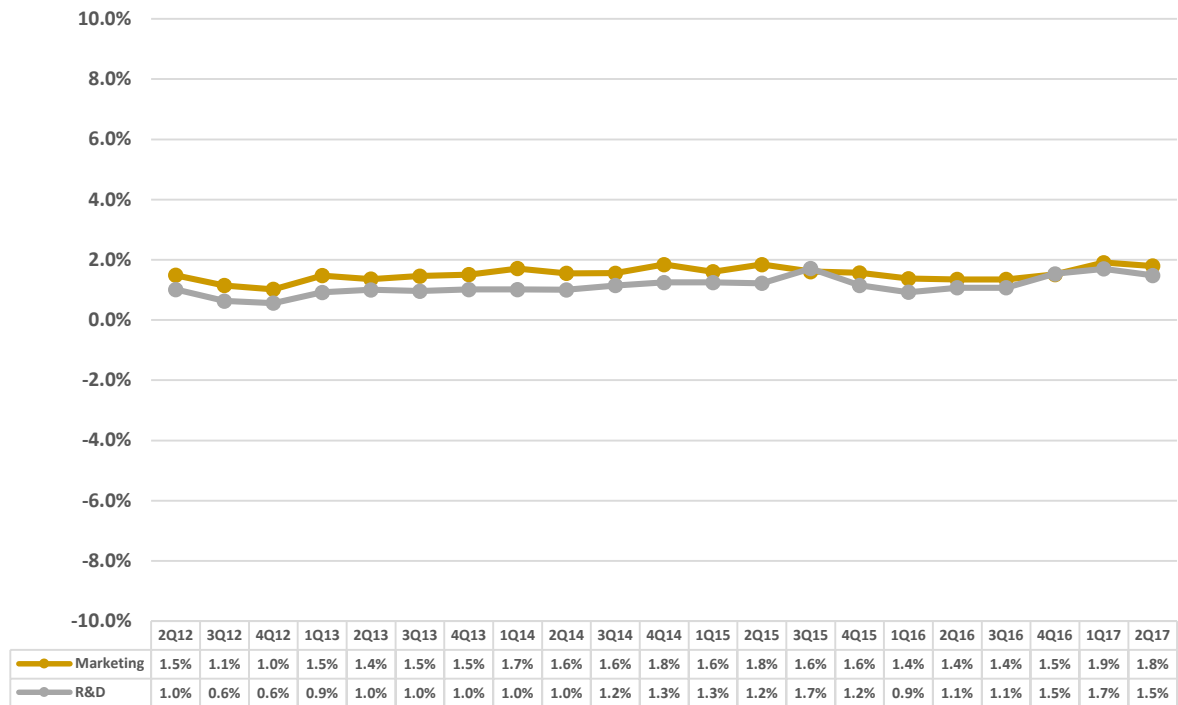
Spending Plans - IT, Other Capital & Training



Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators: please select one growth rate for each item, from increasing by more than 10% to decreasing by more than 10%....

Key Performance Indicators

Spending Plans Marketing & R&D



Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators: please select one growth rate for each item, from increasing by more than 10% to decreasing by more than 10%....

Hiring Plans

Continue to Improve

50%

Have right
number of
employees

Down slightly from
52% in Q1, 2017

8%

Have an
excess of
employees

Unchanged from
Q1, 2017;
Down from 13% in
Q3, 2016

16%

Have too few,
but hesitating
to hire

Consistent with Q1;
down a point from
Q2, 2016

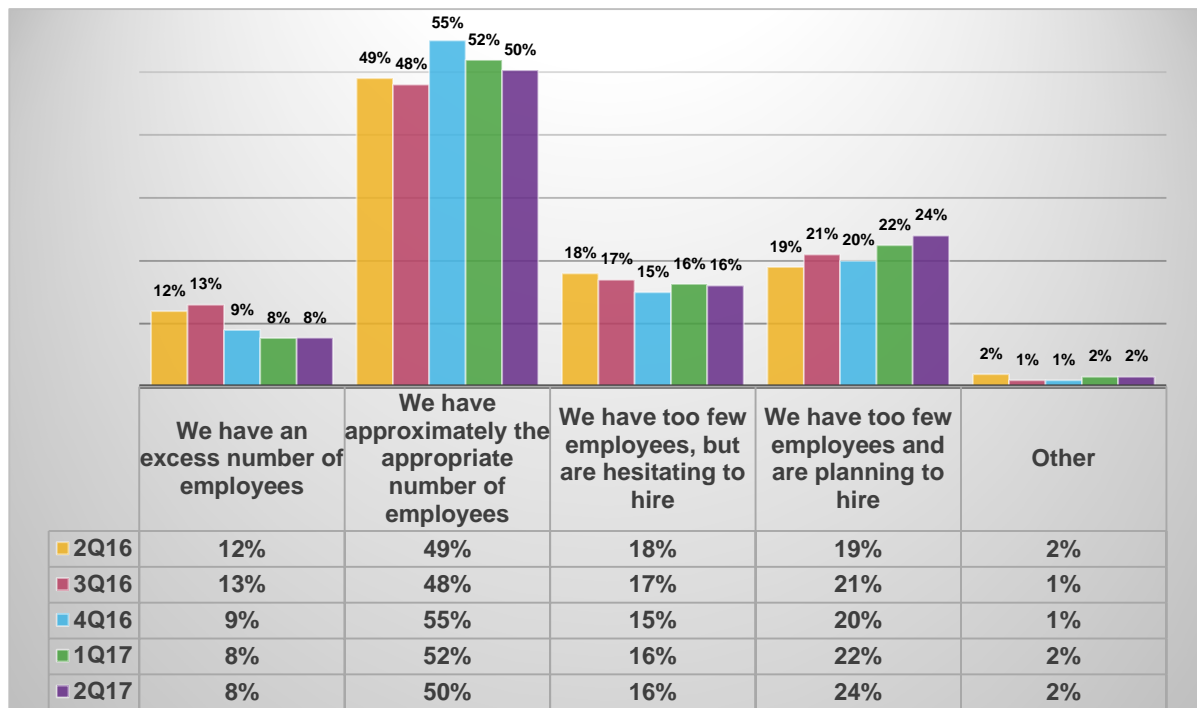
24%

Have too few
and planning
to hire

Up from 22% in Q1,
and up 5% from
19% in Q2, 2016

Hiring Plans

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)?

Top Challenges Facing Organizations

- Employee and benefit costs maintained its top spot in the ranking of challenges
- Availability of skilled personnel moved up a notch, replacing regulatory requirements which slipped from second to third
- Domestic economic conditions and domestic competition maintained their fourth and fifth place positions
- Staff turnover jumped from ninth to sixth, while changing customer preferences fell from sixth to tenth
- Domestic political leadership dropped two more slots from seventh to ninth
- Developing new products/services moved up from the seventh to the sixth slot
- Materials/supplies/equipment costs, which returned to the top ten in Q1, moved up two notches to eight

Please
indicate the
top three
challenges
for your
organization

Top Challenges

	2Q16	3Q16	4Q16	1Q17	2Q17
1	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes	Employee and benefits costs	Employee and benefits costs
2	Domestic economic conditions	Domestic economic conditions	Employee and benefits costs	Regulatory requirements/changes	Availability of skilled personnel
3	Availability of skilled personnel	Availability of skilled personnel	Domestic economic conditions	Availability of skilled personnel	Regulatory requirements/changes
4	Domestic competition	Domestic competition	Availability of skilled personnel	Domestic economic conditions	Domestic economic conditions
5	Employee and benefits costs	Employee and benefits costs	Domestic competition	Domestic competition	Domestic competition
6	Stagnant/declining markets	Stagnant/declining markets	Developing new products/services/markets	Changing customer preferences	Staff Turnover
7	Domestic political leadership	Domestic political leadership	Domestic political leadership	Domestic political leadership	Developing new products/services/markets
8	Developing new products/services/markets	Liquidity	Changing customer preferences	Developing new products/services/markets	Materials/supplies/equipment costs
9	Liquidity	Developing new products/services/markets	Stagnant/declining markets	Staff Turnover	Domestic political leadership
10	Energy costs	Financing (access/cost of capital)	Staff Turnover	Materials/supplies/equipment costs	Changing customer preferences

Industry, Region and Business-size Outlook - 1 of 3

Optimism rebounds for retail

Retail trade optimism rebounded to 58% after dropping from 50% to 38% in Q1

Hiring for retail continues to be soft, but recovered from <0.3%> in Q1 to 1.1% in Q2

Wholesale trade however, gave back its significant jump to 79% optimistic in Q1, falling off to 57% in Q2

Optimism eases for both manufacturing and technology

Manufacturing optimism eases to 66% in Q2 from 74% in Q1

Manufacturing hiring continued to improve from 2.1% in Q1 to 2.3% in Q2

Technology also declines from 69% to 56% optimistic in Q2

Construction and real estate also give up some Q1 gains

Construction optimism dropped from 74% in Q1 to 66% in Q2

Construction hiring also declined from 2.8% in Q1 to 1.7% in Q2

Real Estate and Property fell from 79% to 63%

Real Estate hiring expectations also softened a point from 1.5% to 1.4%

Industry, Region and Business-size Outlook - 2 of 3

Finance and Insurance and Professional Services also settle

Finance and Insurance optimism declines from 74% in Q1 to 66% in Q2

Technology hiring improves from 2.0% in Q4 to 2.9% in Q1

Professional service optimism also declines from 66% in Q1 to 62% in Q2

Professional service hiring also gives back some Q1 strength, easing from 3.9% in Q1 to 2.9% in Q2

Healthcare providers rebound; Healthcare – other declines in optimism

Healthcare providers jumped from 43% in Q1 to 52% in Q2

Expected hiring by Healthcare providers eases from 3.3% in Q1 to 2.4% in Q2

Healthcare – other dropped from 70% optimistic in Q1 to 60% in Q2

Industry, Region and Business-size Outlook - 3 of 3

Regional optimism shows mixed results

South – optimism in South gives back its Q1 gains, falling from 71% to 65%

Midwest – maintains its Q1 level of optimism in Q2 at 65%

West – optimism declines from 68% in Q1 to 62% in Q2

Northeast – improves from 57% to 60% optimistic

Employment projections by business size and expansion plans by size also show mixed results

For employers with > \$1 billion in revenues, 33% have too few employees. However, only 16% of the largest companies with too few employees have plans to hire; 17% are hesitant.

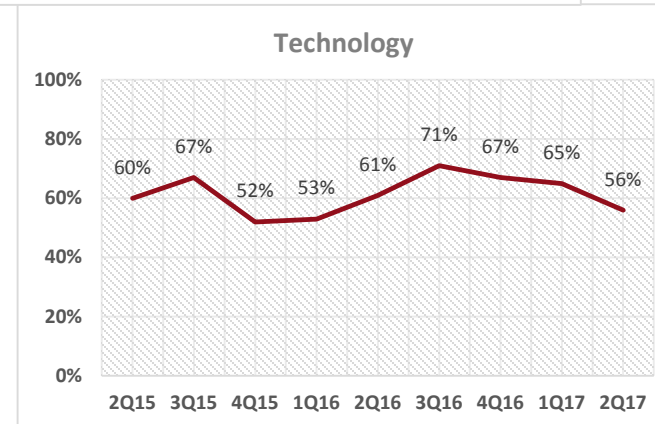
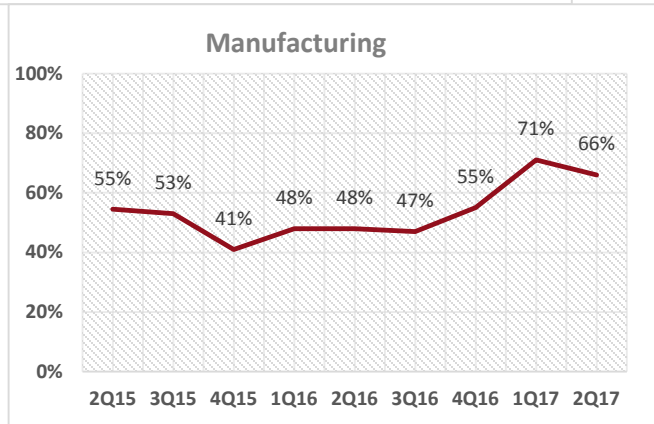
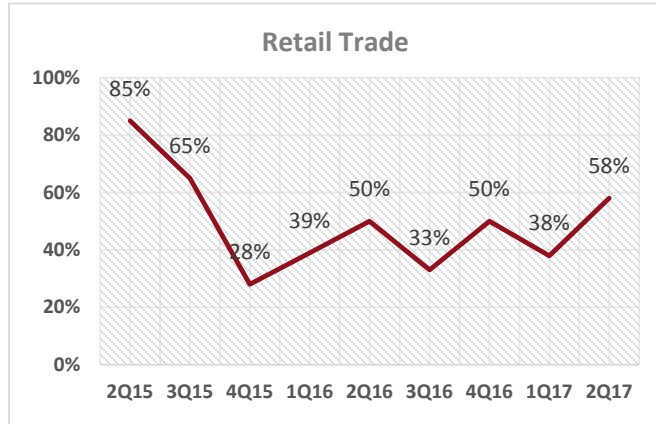
Employers with revenues < \$10 million are also mixed; while 39% have too few employees, only 19% are planning to hire; 20% are hesitant.

In the \$10 - \$100 million range, 29% of the total of 42% with too few employees have plans to hire; only 13% are hesitant.

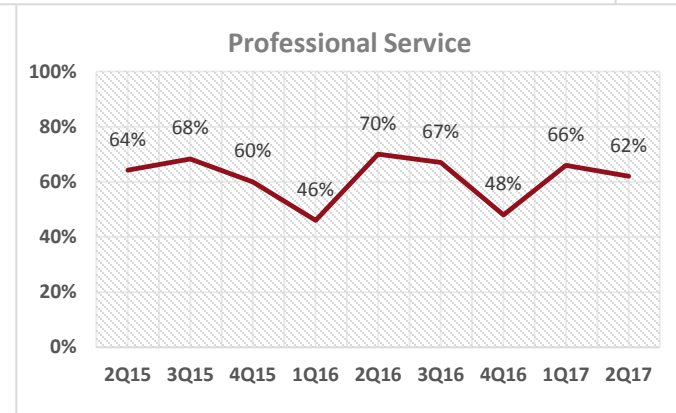
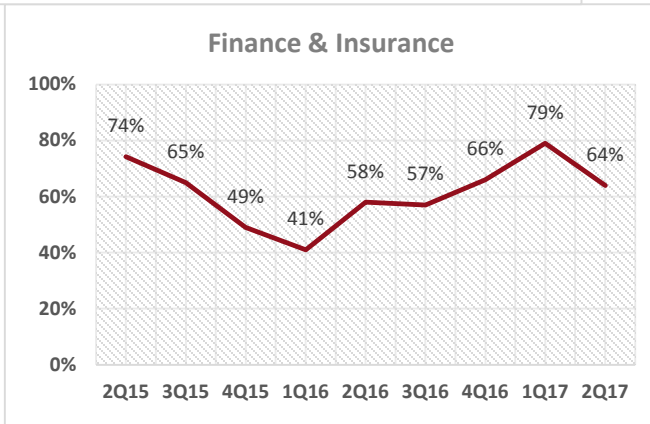
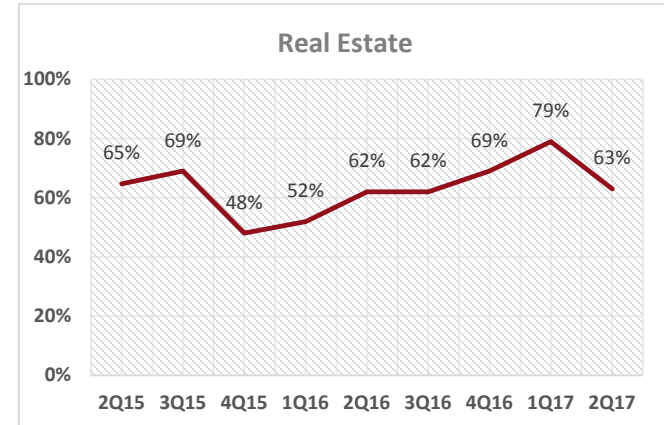
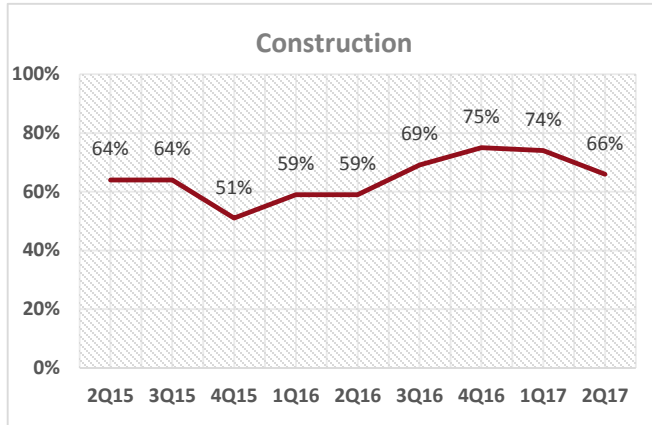
Of those in the \$100 million to \$1 billion category, 45% say they have too few employees and 27% are hiring, while 18% are hesitant.

While expansion plans for the larger category of SMEs increased from 67% to 73%, expansion plans for the smaller SME companies fell from 72% to 53%

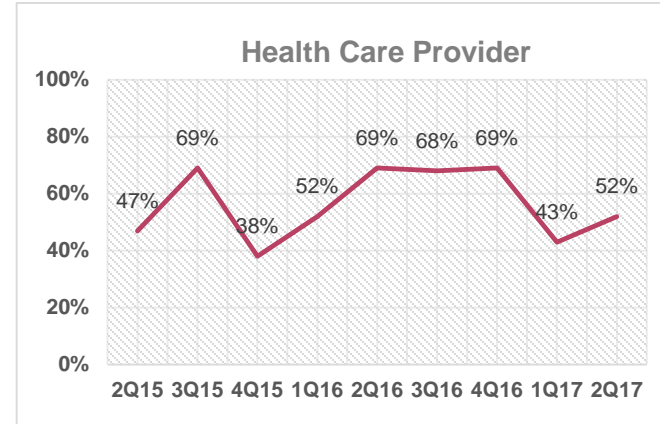
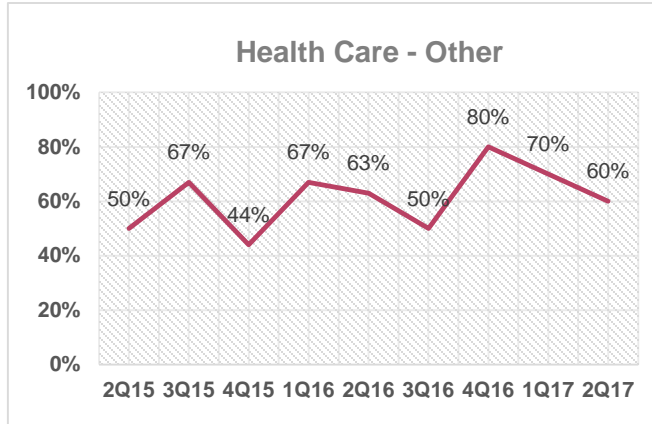
Organization Optimism by Industry



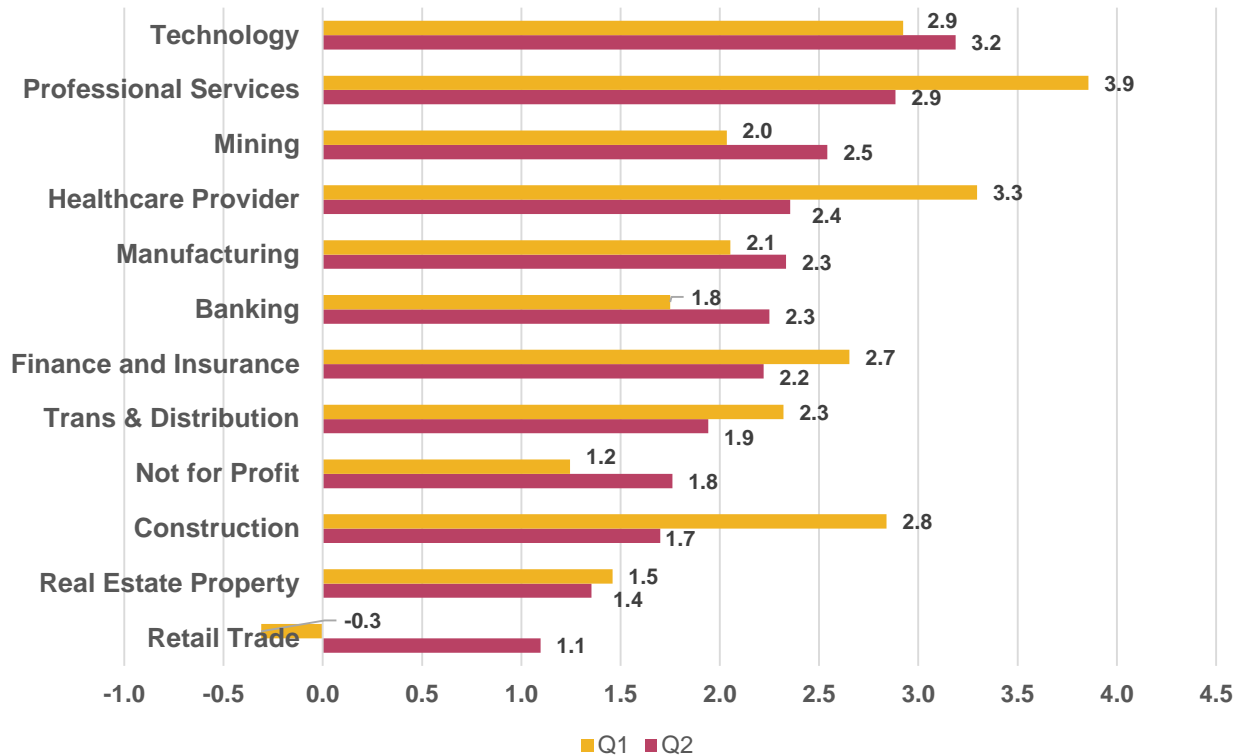
Organization Optimism by Industry



Organization Optimism by Industry

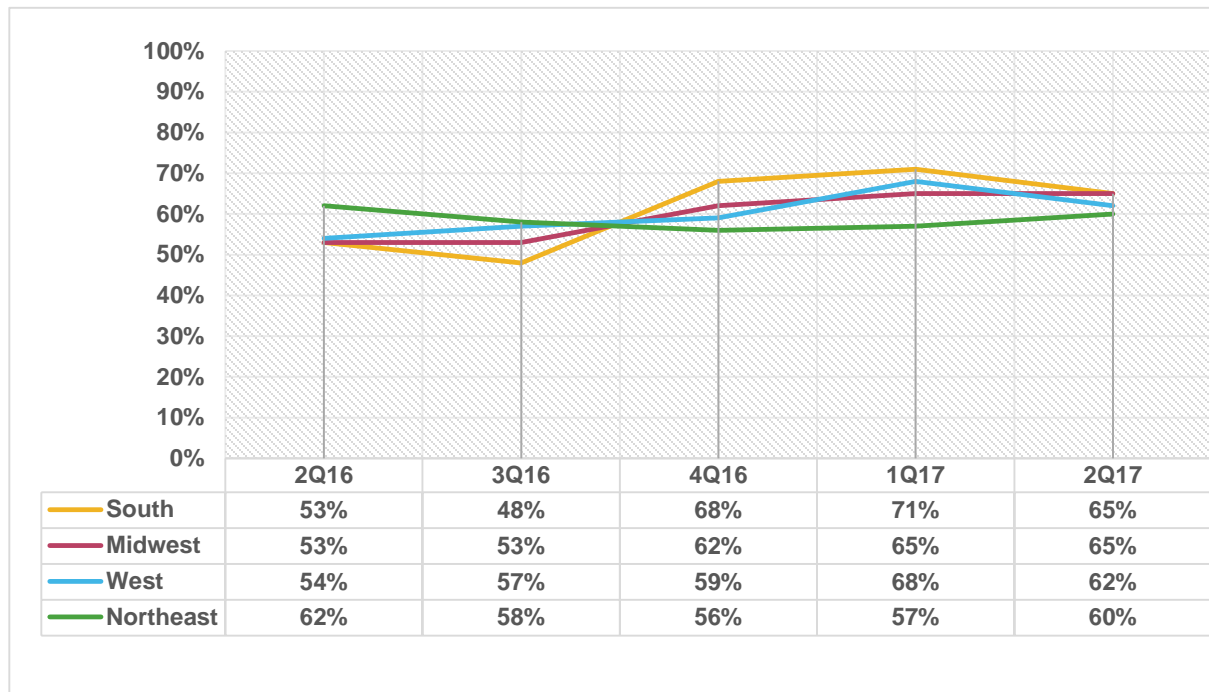


Expected Employment Change by Industry



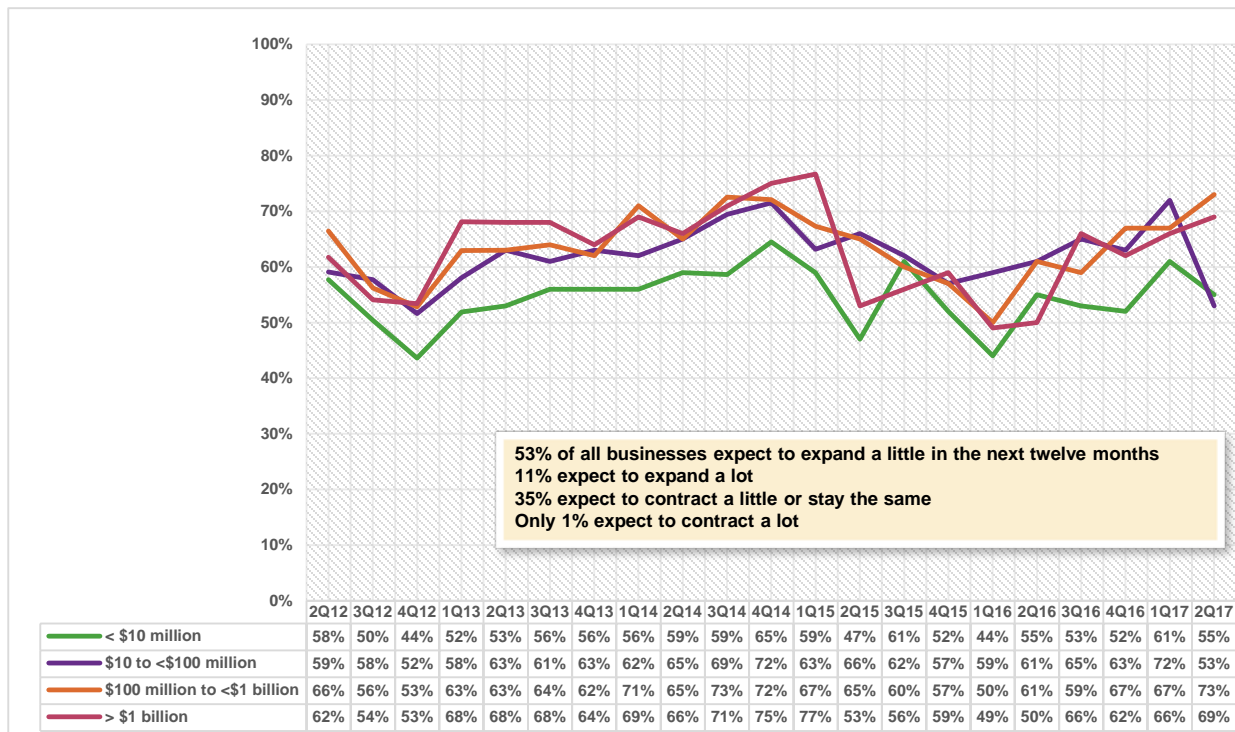
Thinking about the coming 12 months, please comment on the probable change for your organization for Number of Employees

Organization Optimism by Region



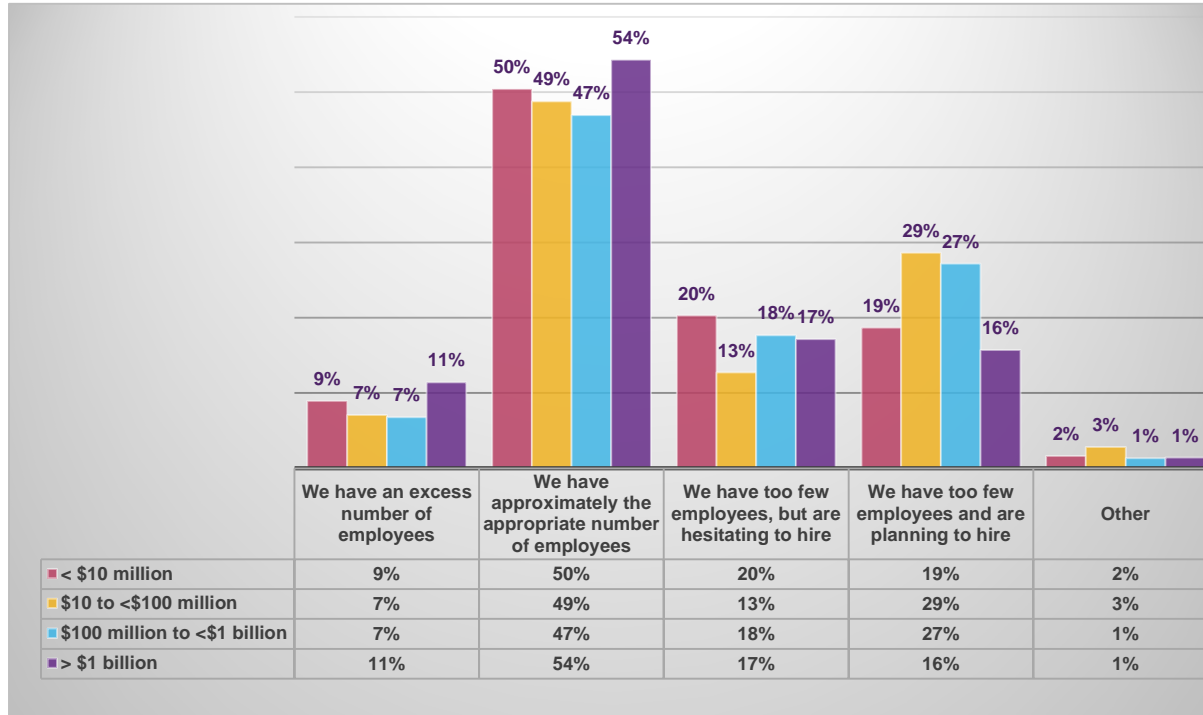
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months.

Expansion Plans by Business Size



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

Businesses in the >\$1 billion range are most likely to have excess employees



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)?

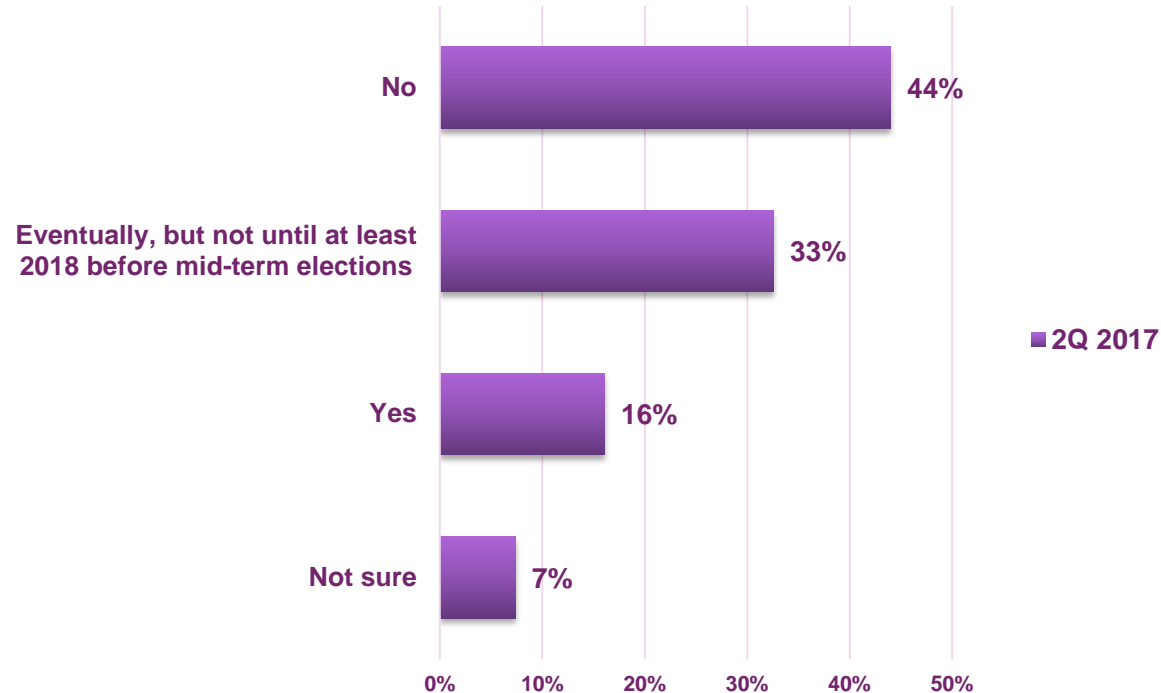
AICPA Economic Outlook Survey

Survey Within a Survey

Corporate Tax Reform

Tax Reform - Timing

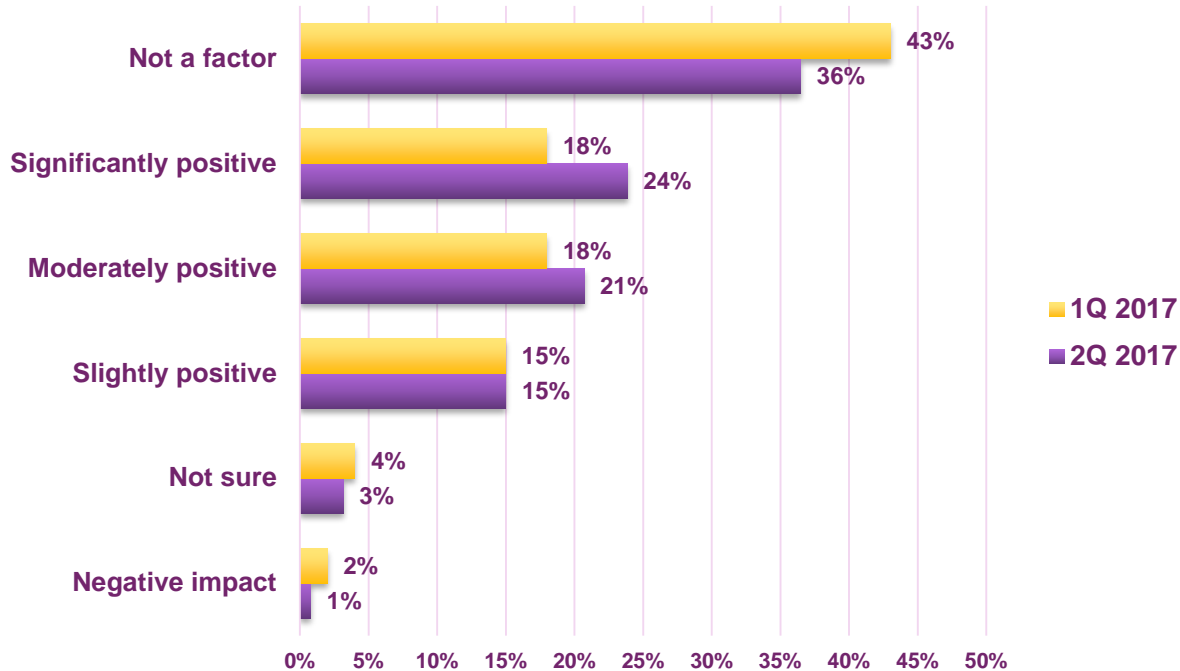
Federal Corporate Income Taxes



Do you expect the administration's proposal to lower federal corporate income taxes to 15% will be enacted this year?

Tax Reform – Bottom Line Impact

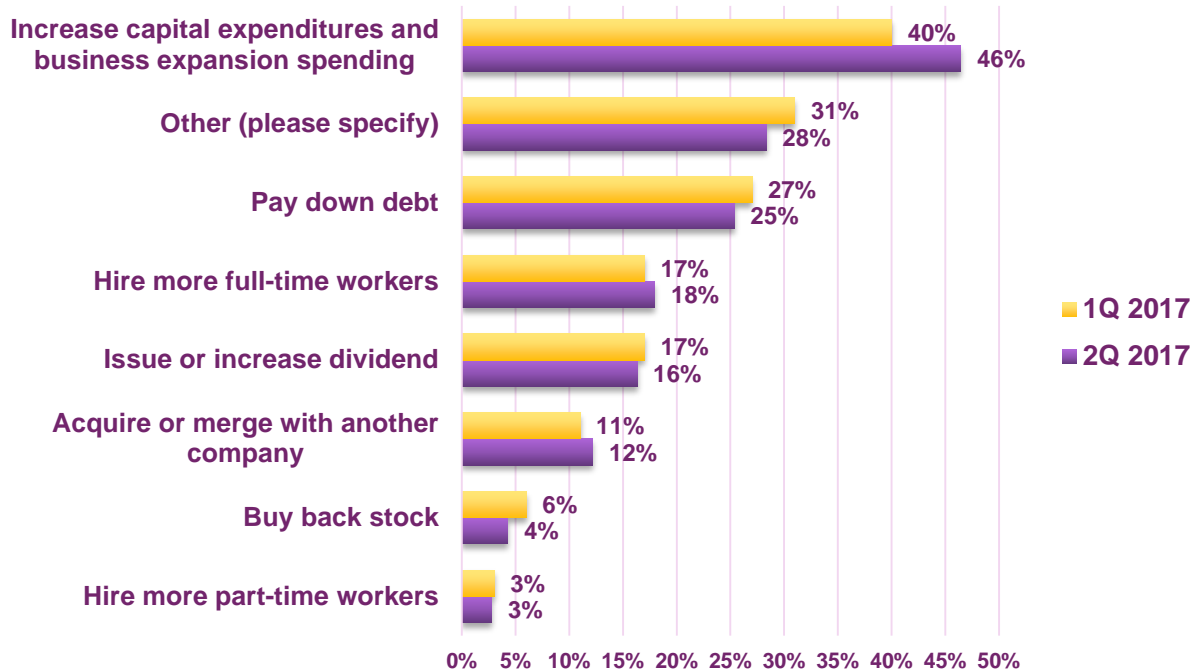
Federal Corporate Income Taxes



What impact would a potential reduction in the federal corporate income tax rate to the 15% to 20% range have on your company's bottom line?

Tax Reform – Savings Deployment

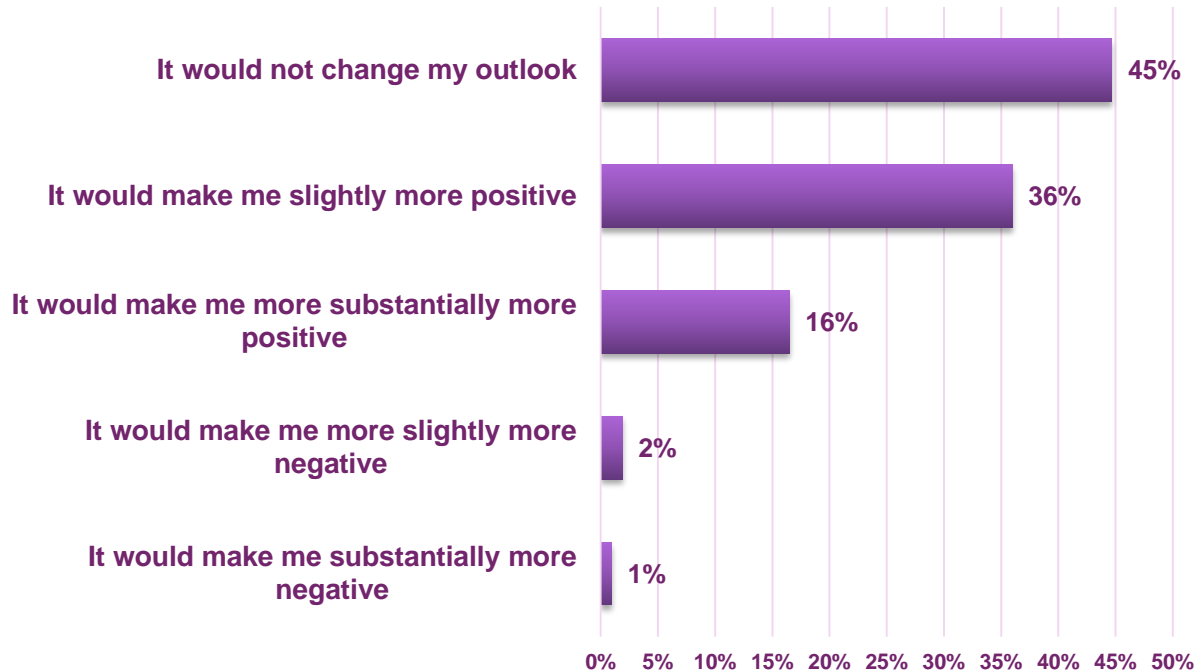
Federal Corporate Income Taxes



If federal corporate income taxes are reduced, what are the likeliest ways your company would deploy the tax savings? If federal corporate income taxes are reduced, what are the likeliest ways your company would deploy the tax savings?

Tax Reform – Company Prospects

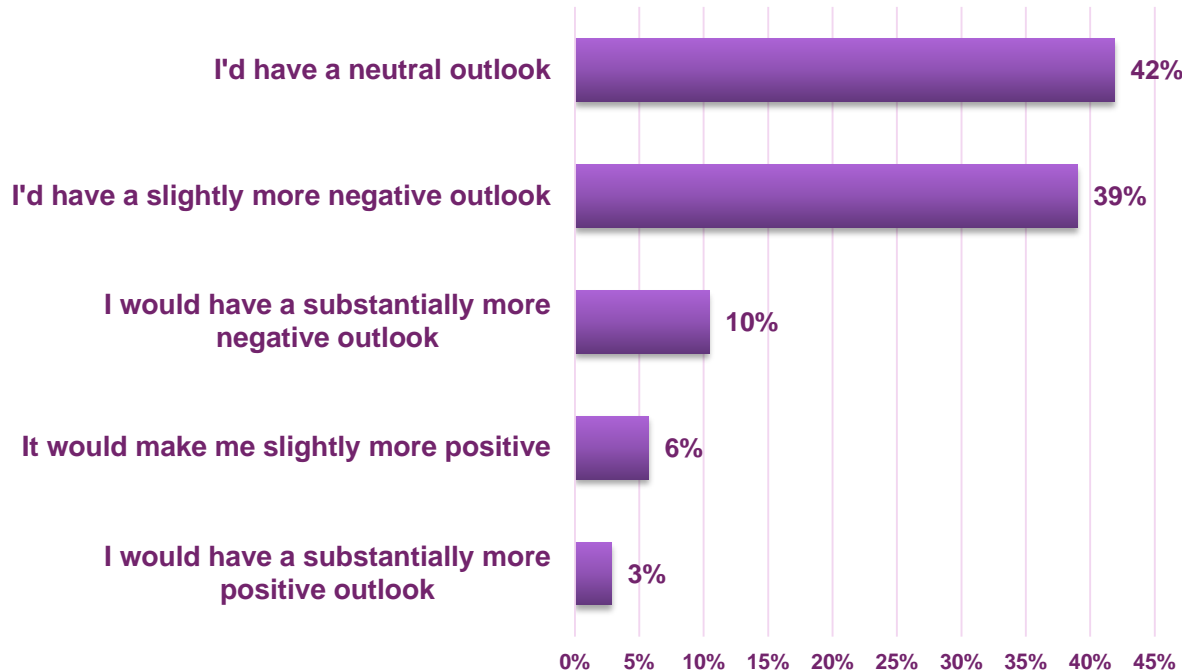
Federal Corporate Income Taxes



How much would enactment of tax reform shape your view of your own company's prospects?

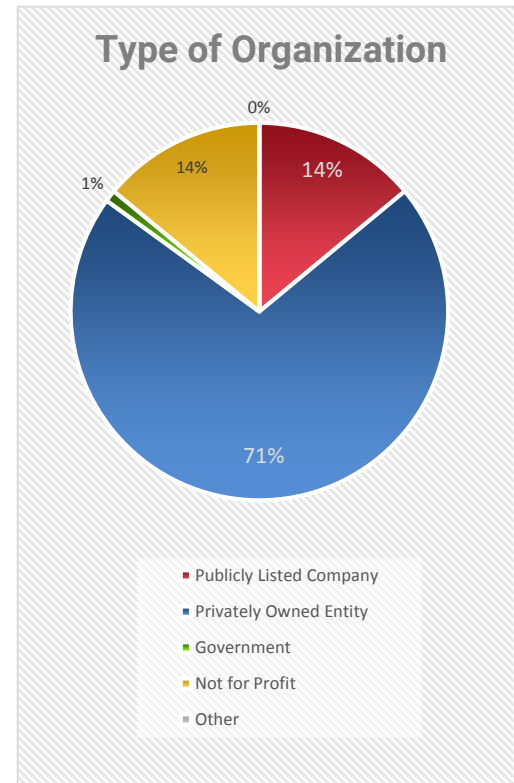
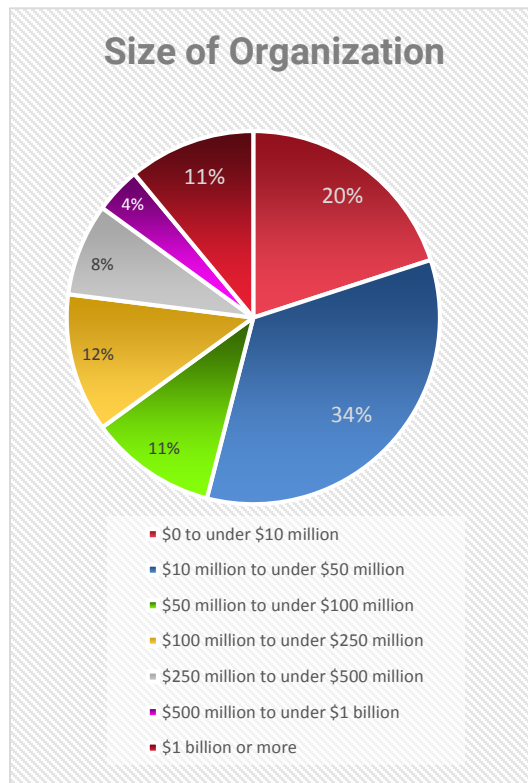
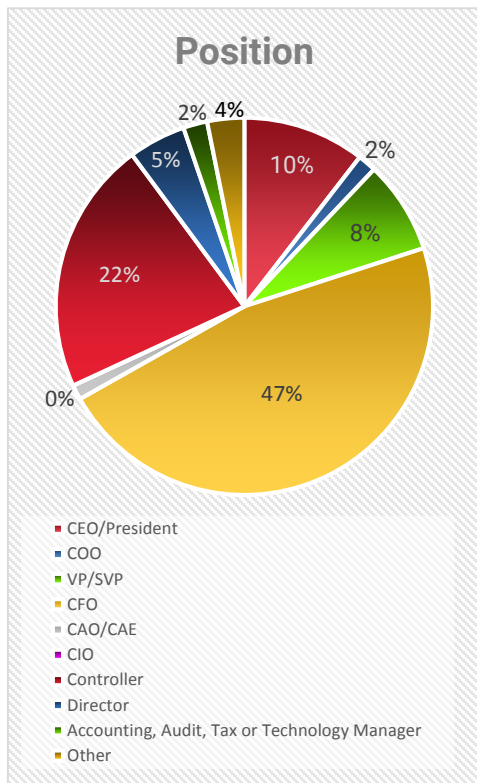
Tax Reform – Economic Outlook

Federal Corporate Income Taxes



If tax reform fails to be implemented before the 2018 mid-term elections, what impact do you expect that will have on your outlook for the U.S. economy?

Demographics





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