



AICPA

Business and Industry

Economic Outlook Survey

Detailed Survey Results — 4Q 2014

Survey Background

- **Conducted between Nov 5 – Nov 24, 2014**
- **Quarterly Survey**
- **CPA decision makers (primarily CFOs, CEOs and Controllers)**
- **AICPA members in Business & Industry only**
- **830 qualified responses**

Survey Highlights

■ CPA Outlook Index improves in all components

- Overall index increased to 78
- US economy optimism index component increased 9 points to 78, marking the fourth straight quarter of increased optimism
- The organization optimism index improved from 78 to 80 and the expansion index from 79 to 81 in Q4

■ Improvement continues in key indicators

- Indexes for revenue and employment both increased by 3 points, while the profits index jumped 5 points
- The year-over-year index point increases for revenue (8), profit (10) and employment (9) are especially notable
- Spending plans also continued their upward trends

■ Optimism, expansion and hiring improves in many sectors

- The level of optimism among smaller companies improved again to 65% in Q4, up from 59% in Q3; the larger company segments ranged from 72% optimistic for medium and larger companies, to 75% optimistic for those with revenues in excess of \$1 billion
- Construction optimism and hiring improved in Q4, while other industry sector results were mixed; technology optimism declined significantly, but their hiring projections remain strong; healthcare providers showed a significant increase in optimism

CPA Outlook Index (CPAOI)

CPA Outlook Index

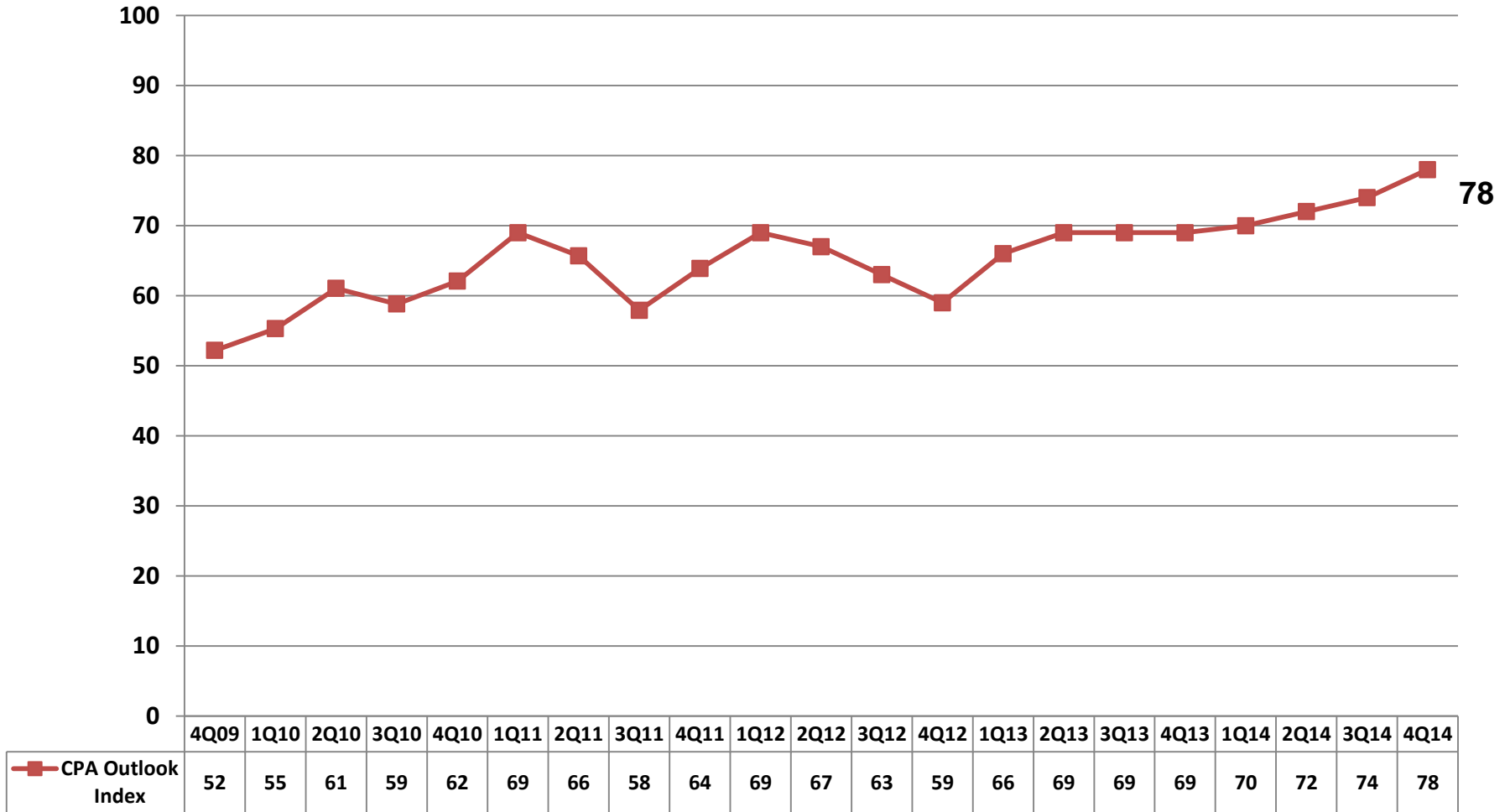
The CPA Outlook Index is a robust measure of sentiment about the U.S. economy that is supported by the unique insight and knowledge that CEOs, CFOs, Controllers, and other CPA executives have about the prospects for their own organizations, their expectations for revenues and profits, and their plans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

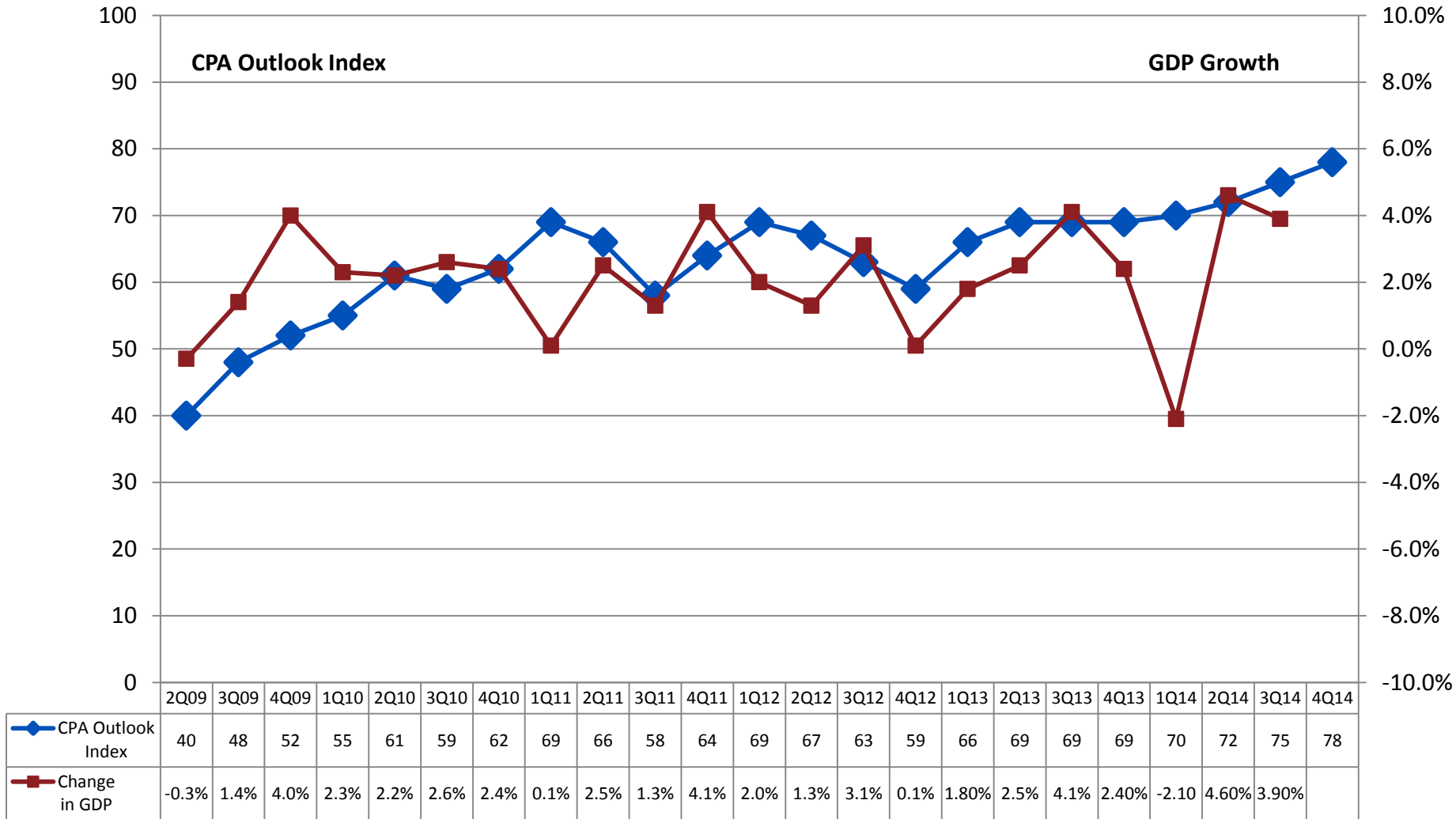
CPA Outlook Index (CPOAI)



CPA Outlook Index Component Indicators

Component	4Q13	1Q14	2Q14	3Q14	4Q14	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	56	65	67	69	78	↑ 09	↑ 22
Organization Optimism	73	74	75	78	80	↑ 02	↑ 07
Expansion Plans	74	74	76	79	81	↑ 02	↑ 07
Revenue	77	76	77	82	85	↑ 03	↑ 08
Profits	69	70	69	74	79	↑ 05	↑ 10
Employment	64	64	65	70	73	↑ 03	↑ 09
IT Spending	76	76	77	79	80	↑ 01	↑ 04
Other Capital Spending	69	67	70	74	75	↑ 01	↑ 06
Training & Development	67	68	70	73	75	↑ 02	↑ 08
Total CPAOI	69	70	72	75	78	↑ 03	↑ 09

CPA Outlook Index (CPAOI) vs GDP



U.S. & Organization Outlook

Outlook for the U.S. and Organizations

■ **Optimism for the U.S. Economy improves significantly**

- The percentage of executives optimistic about the US Economy increased significantly from 52% in Q3 2014 to 64% in Q4 2014
- Economic growth, the employment situation and the recent elections were cited by the optimists as the most significant factors by the optimists
- Lingering concerns about leadership/politics and continuing concern about regulations were cited by those who are neutral or pessimistic

■ **Organizational optimism and expansion plans also increase**

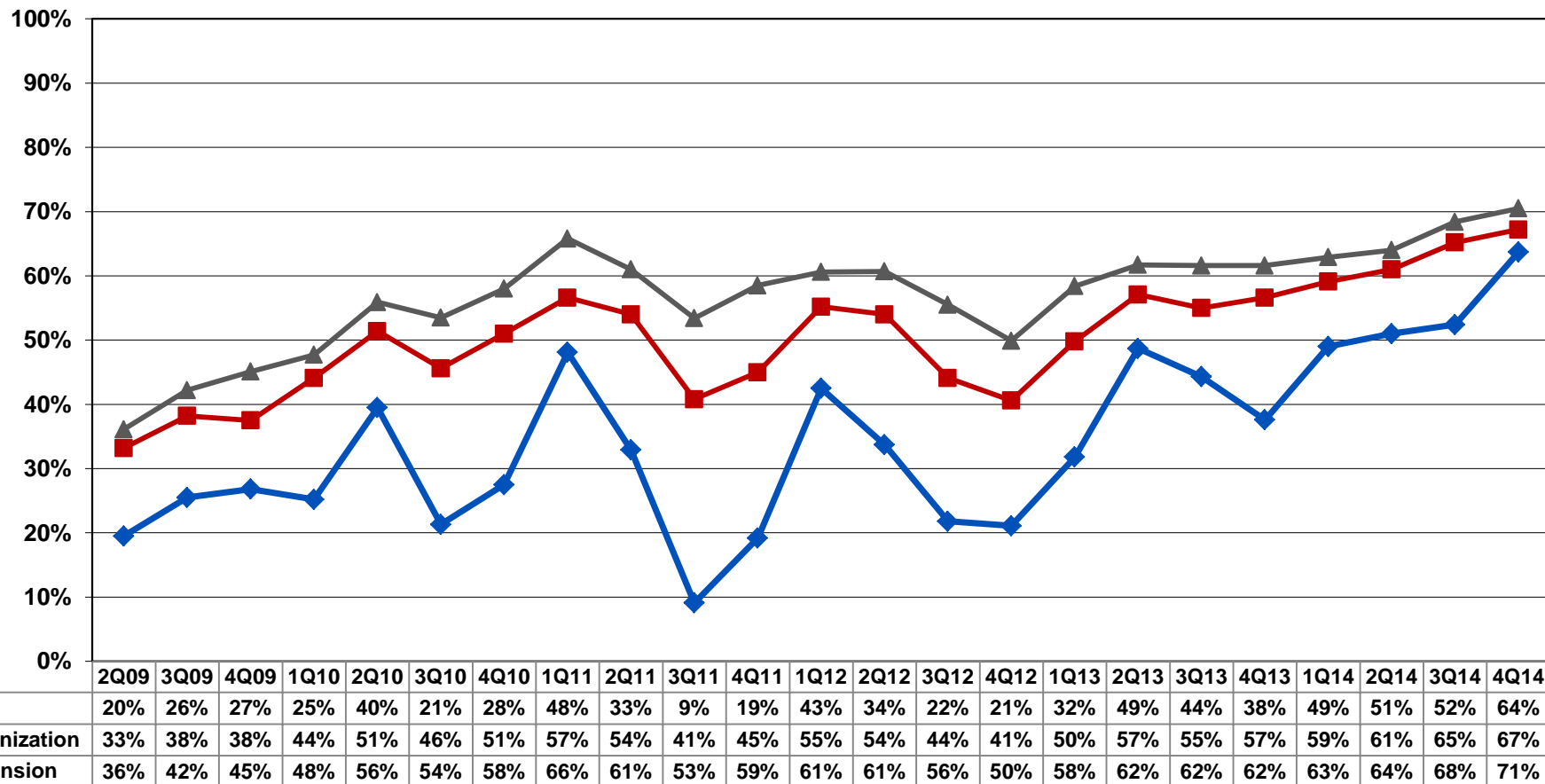
- Optimism about own company prospects increased from 65% in Q3 to 67% in Q4
- The percentage of companies expecting their business to expand increased from 68% to 71%

■ **Inflation concerns increase slightly**

- Only 27% are concerned about inflation, down from 38% in Q3
- Labor costs continue to be the most pressing concern for 34% of respondents, up from 30% in Q3
- Concern about interest rates eased this quarter from 25% to 21%

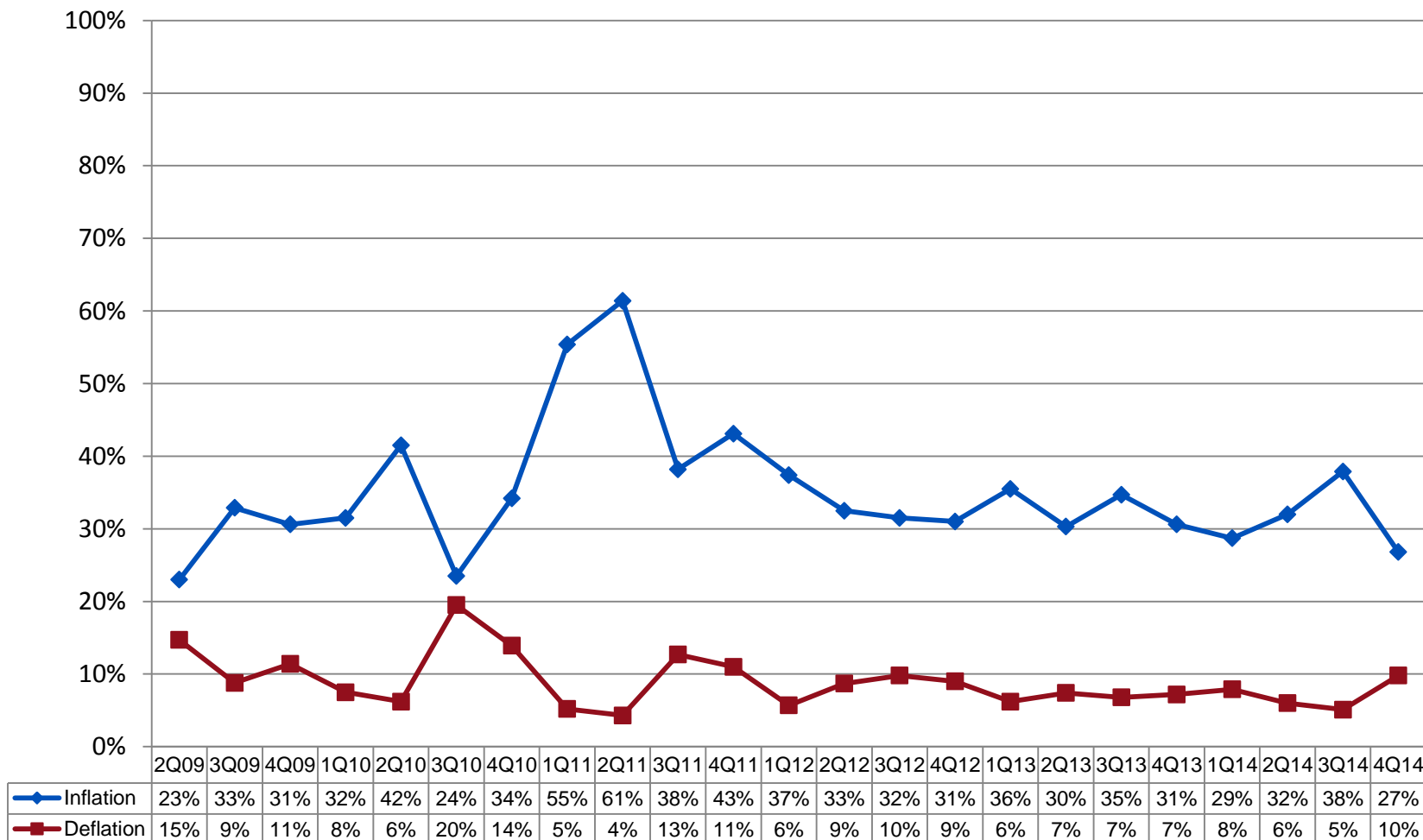
Optimism & Expansion

US, Organization, Expansion



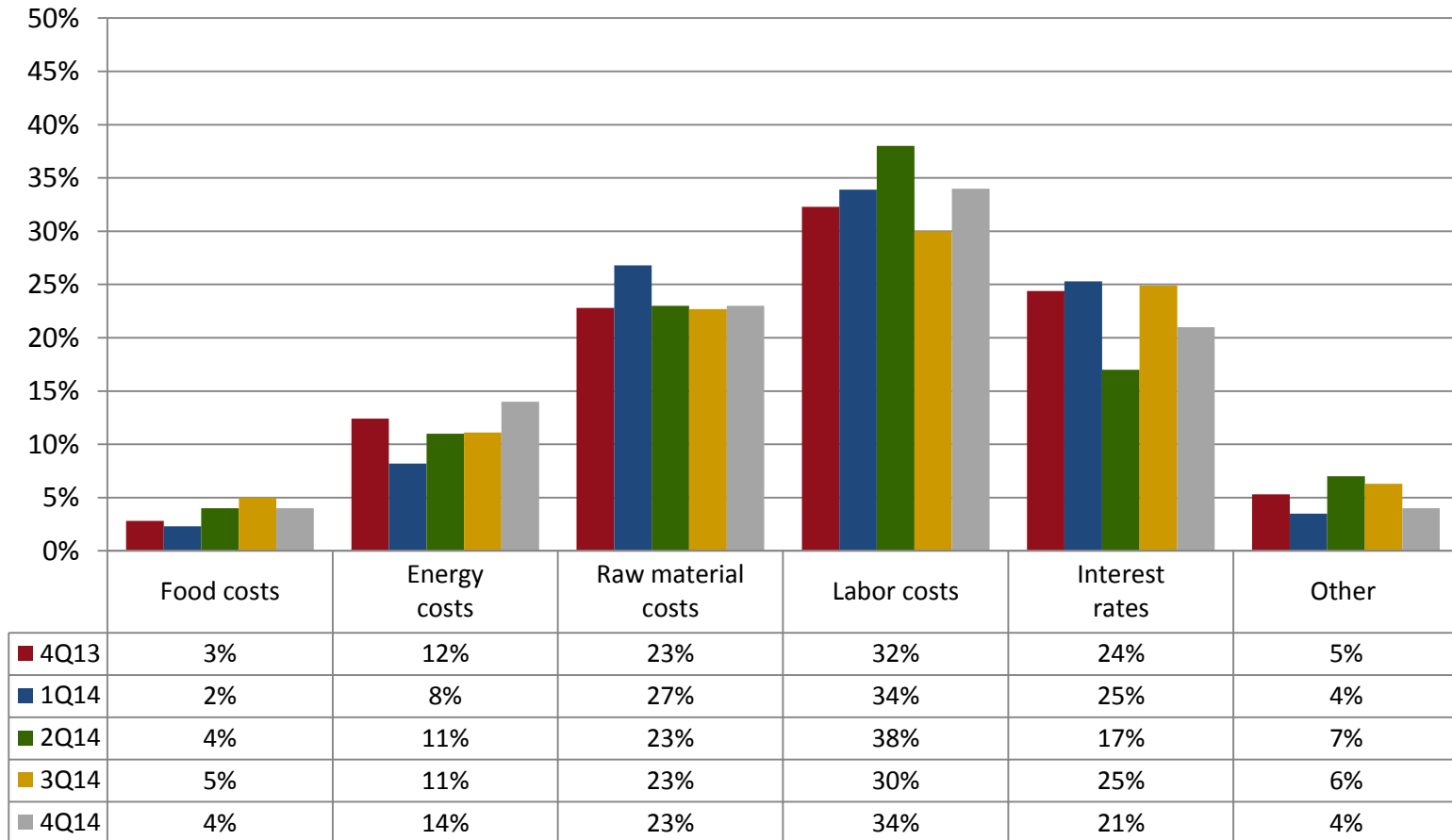
For your business, are you more concerned about inflation or deflation?

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

■ Outlooks for revenue and profit improve

- Expected revenue increase rises from 4.4% to 4.7%; expected profit increase jumps from 3.6% to 3.9%

■ Headcount plans improve; healthcare cost expectations ease slightly

- Headcounts are now expected to increase by 2.1% over the next year as compared to a projected increase of 1.8% in the 3Q 2014 survey
- Expected increases in salary and benefit costs rise from 2.4% in Q3 to 2.5% in Q4
- Anticipated healthcare cost increases eases from 6.6% to 5.9%
- Expected “other input prices” eased from 2.3% to 2.1%, but continue to outpace expected ability to increase “prices charged” which held constant at 1.7%

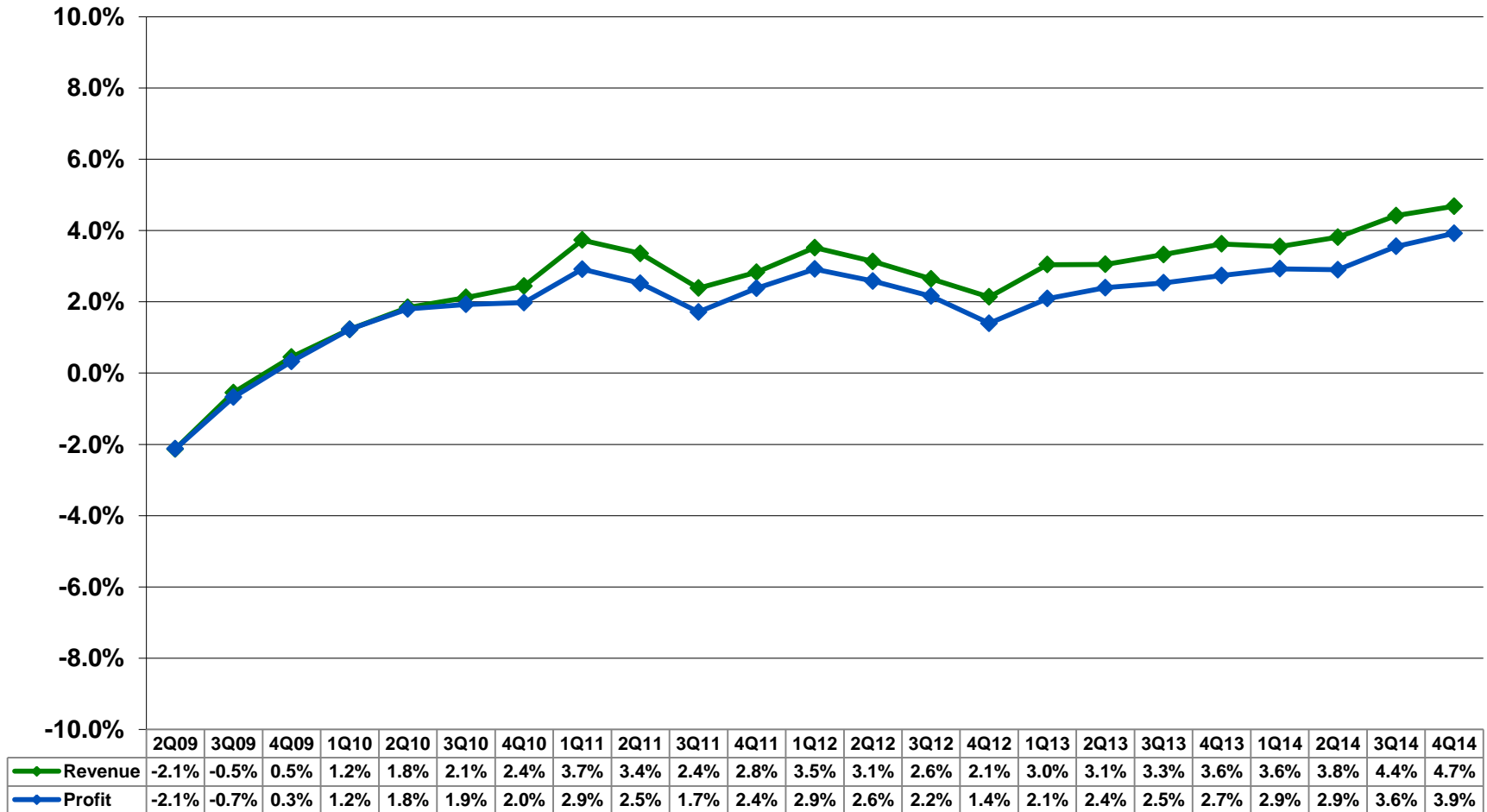
■ Key spending plans continue to be strong

- Increased spending for IT continues to be the strongest category, maintaining the post-recession high of 3.3% reached in Q3
- Other capital spending jumped again to a new high rate of 3.2%, up from 2.9% in Q3
- Expected increase in training spending also improved to a new high rate of 2.2%
- Marketing spending plans improved from 1.6% to 1.8%
- R&D spending also increased from 1.2% to 1.3%

Key Performance Indicators

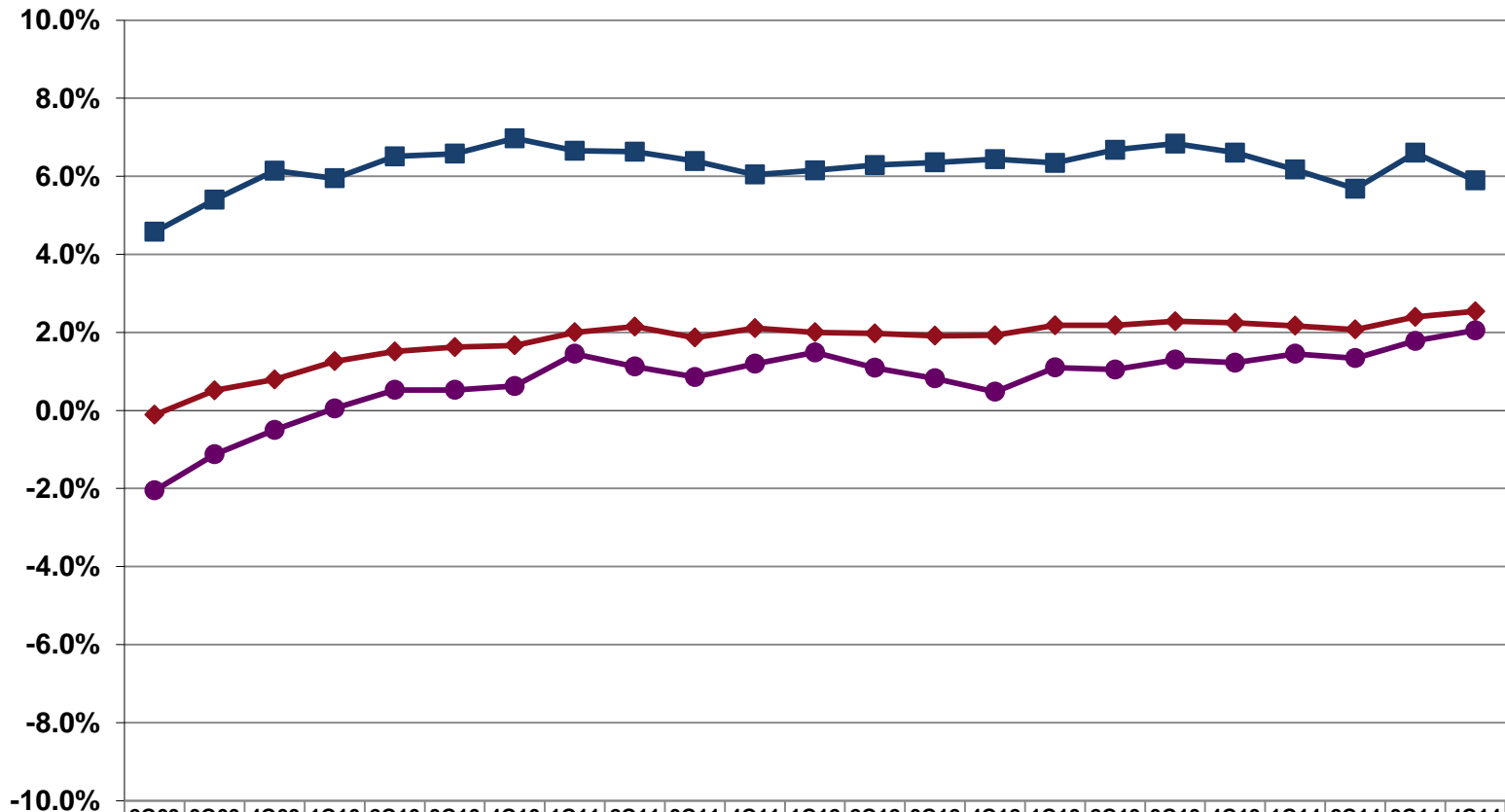
Expected Growth in Revenue and Profits

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



Employees, Salary & Benefits and Healthcare Costs

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

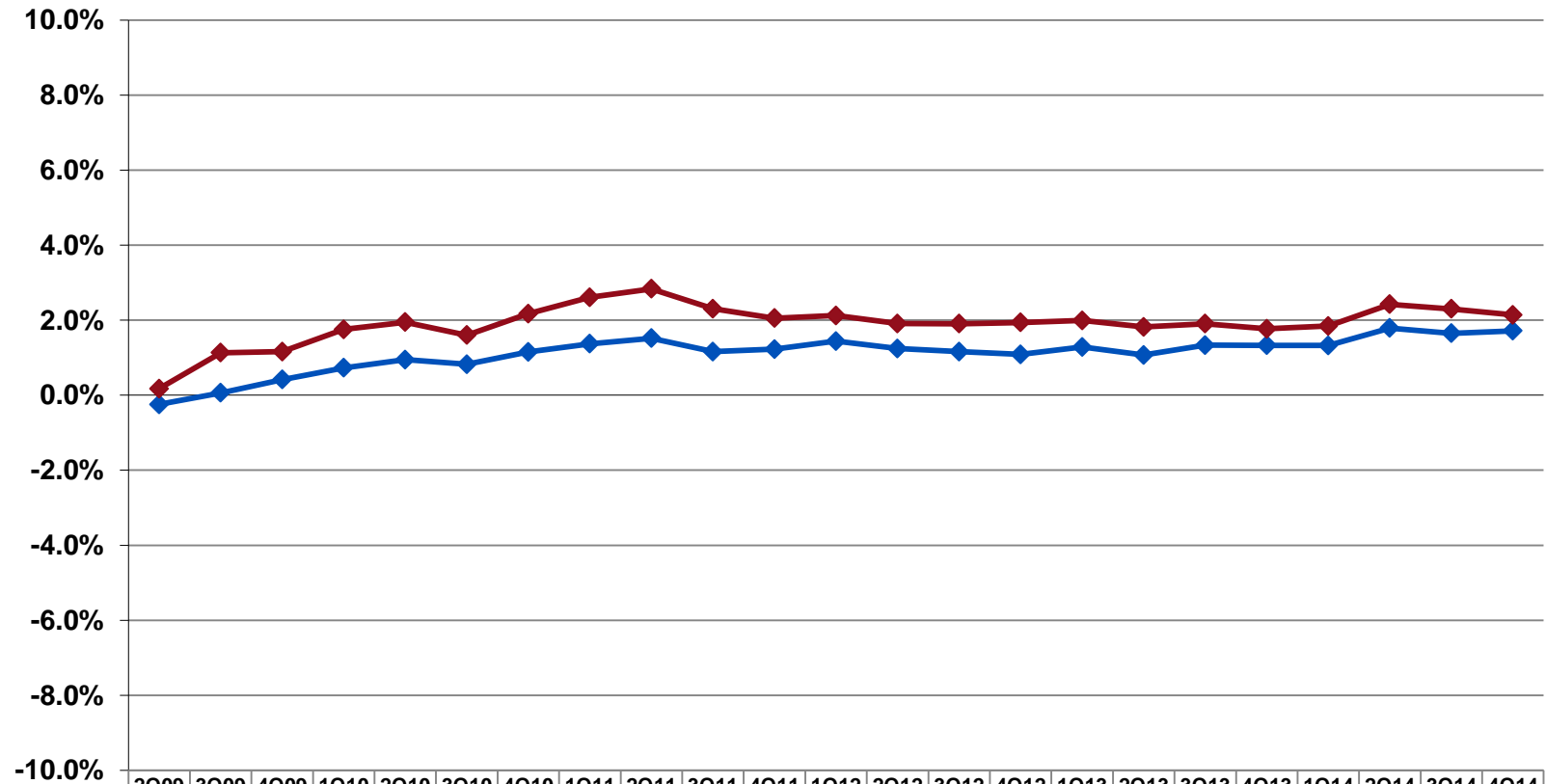


	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Employees	-2.1%	-1.1%	-0.5%	0.1%	0.5%	0.5%	0.6%	1.5%	1.1%	0.9%	1.2%	1.5%	1.1%	0.8%	0.5%	1.1%	1.0%	1.3%	1.2%	1.5%	1.3%	1.8%	2.1%
Salary & Benefits	-0.1%	0.5%	0.8%	1.3%	1.5%	1.6%	1.7%	2.0%	2.2%	1.9%	2.1%	2.0%	2.0%	1.9%	1.9%	2.2%	2.2%	2.3%	2.2%	2.2%	2.1%	2.4%	2.5%
Healthcare	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%	5.7%	6.6%	5.9%

Pricing & Other Costs

Average Change Expected

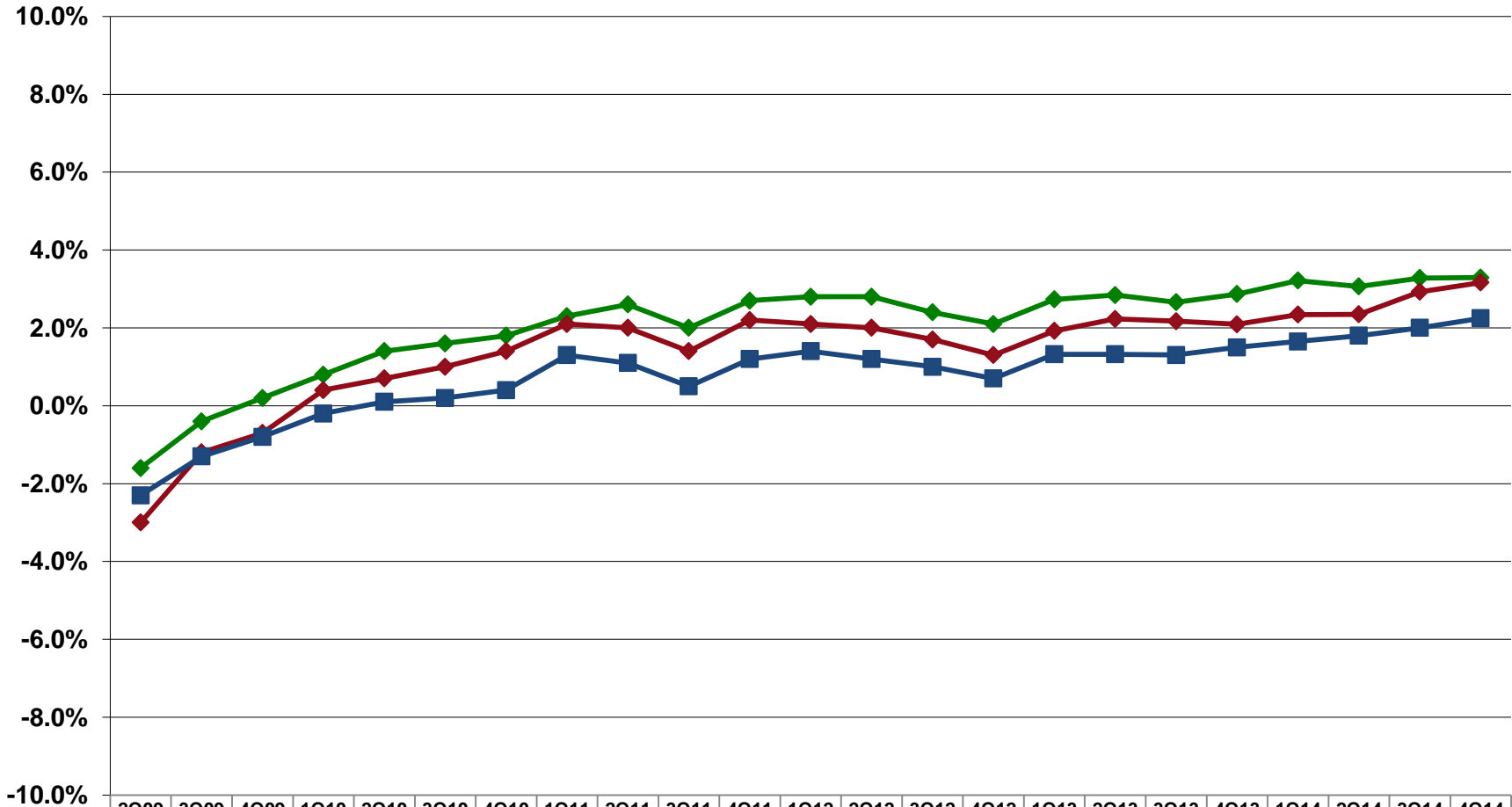
Thinking about the coming 12 months, please comment on the probable change for your organization ...



Prices Charged	-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%	1.8%	1.7%	1.7%
Input Prices	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%	2.4%	2.3%	2.1%

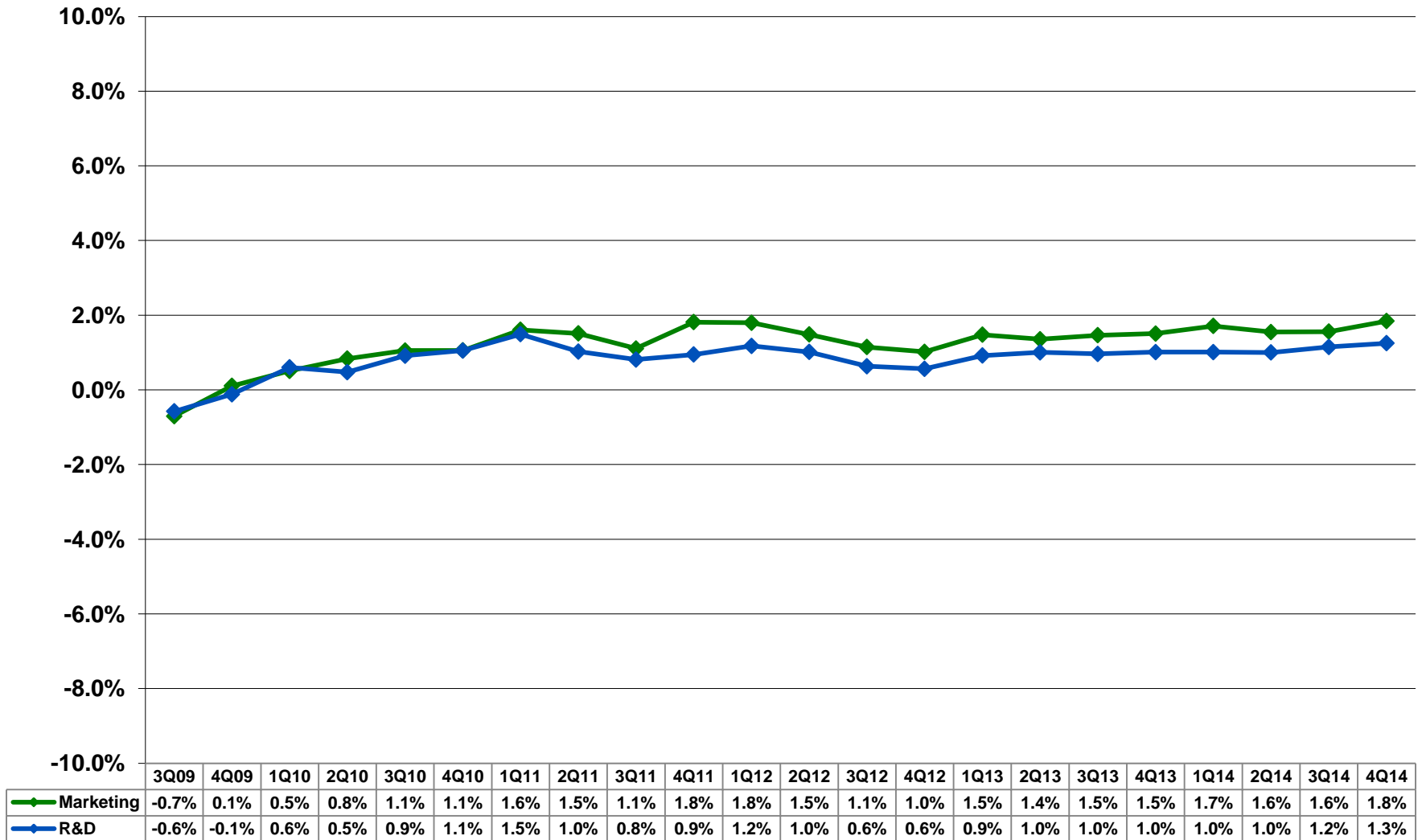
Spending Plans IT, Other Capital & Training

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

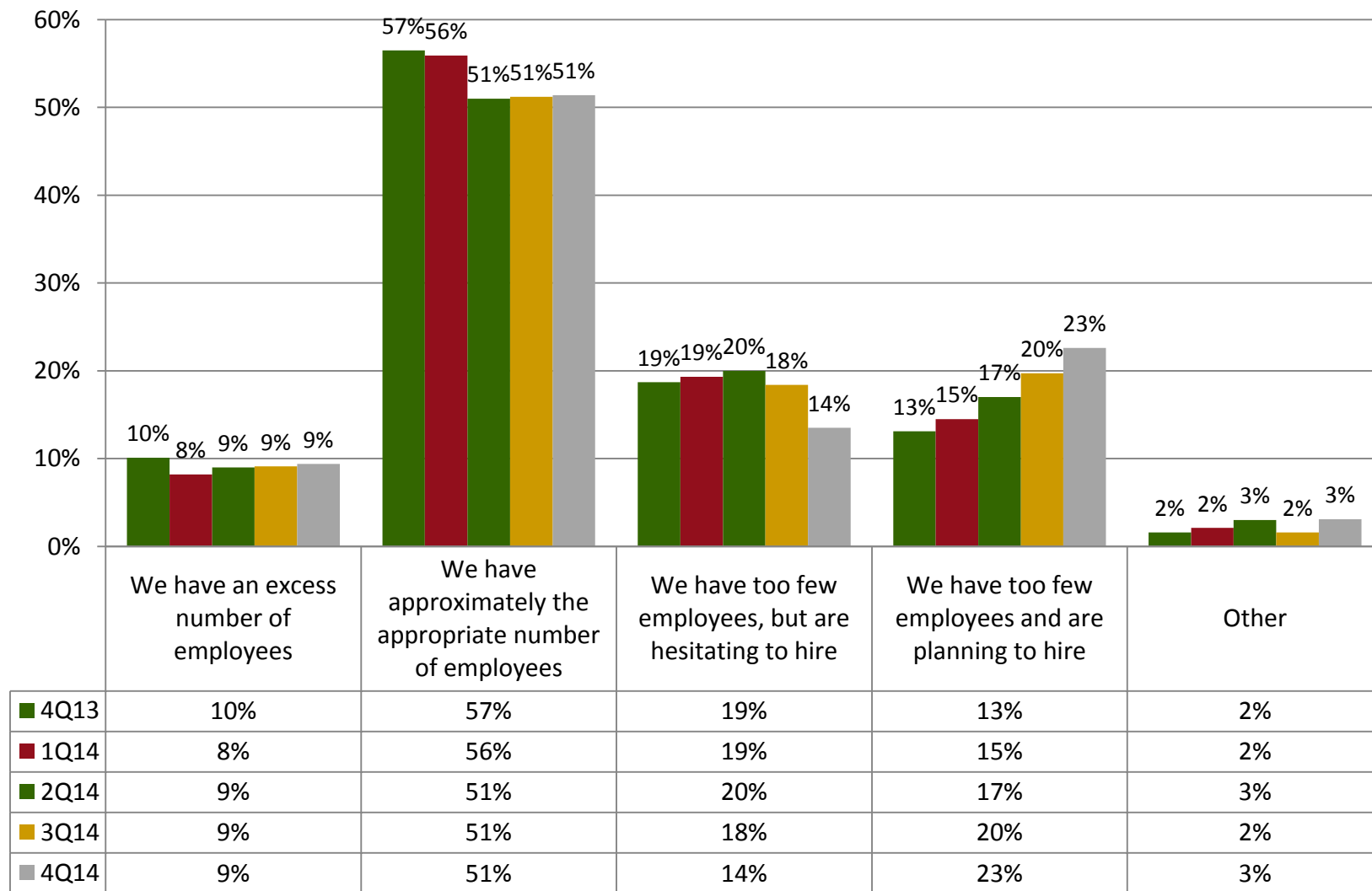
Hiring Plans

■ Hiring plans look to improve

- 51% of all companies say they have the appropriate number of employees, which is the same percent from Q2 and Q3
- The number of companies with too many employees is also unchanged at 9%
- Roughly a third (37%) have too few employees
 - The percentage of companies reluctant to hire decreased 4 points from 18% in Q3 to 14% in Q4
 - The number of companies planning to hire new employees increased from 20% in Q3 to 23% in Q4

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 and capital plans essentially unchanged

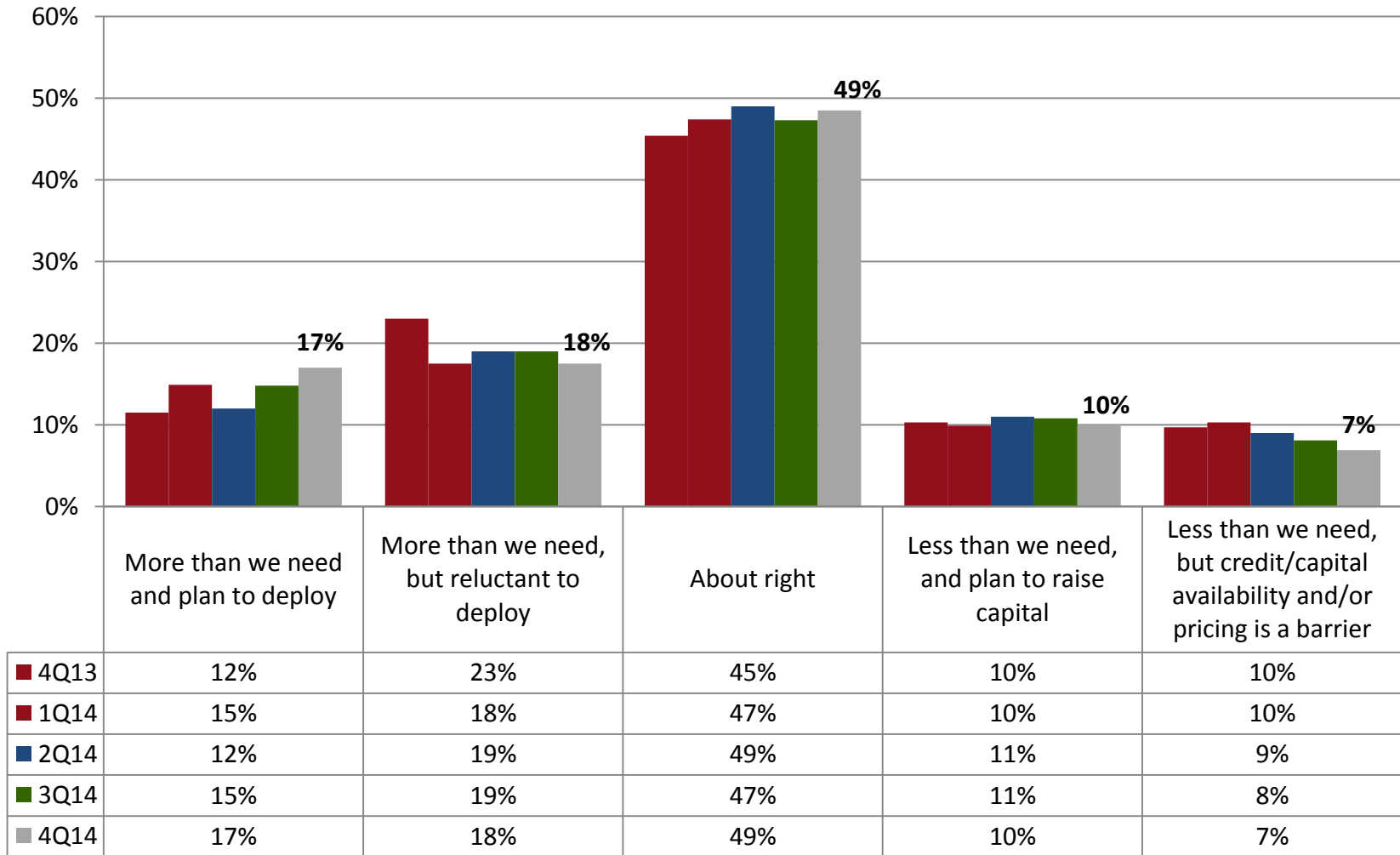
- The number of companies indicating they had about the right amount of liquidity increased slightly back to 49% in 4Q from 47% in 3Q
- The number indicating they had more than they needed and that are planning to deploy the excess increased from 15% to 17%
- The number indicating reluctance to deploy their excess eased another point to 18% after registering at 23% in Q4 2013

■ Credit availability continues to be more challenging for smaller businesses

- The number of companies planning to raise needed capital dropped a point to 10%
- Overall, the number of companies expecting it to be more difficult to get necessary financing fell back another point this quarter to 7%, also down 5 points from Q4 2013 (12%)
- However, 12% of small businesses anticipate that obtaining credit will be more difficult in the next quarter; only 1% of the very large business also feel that way.

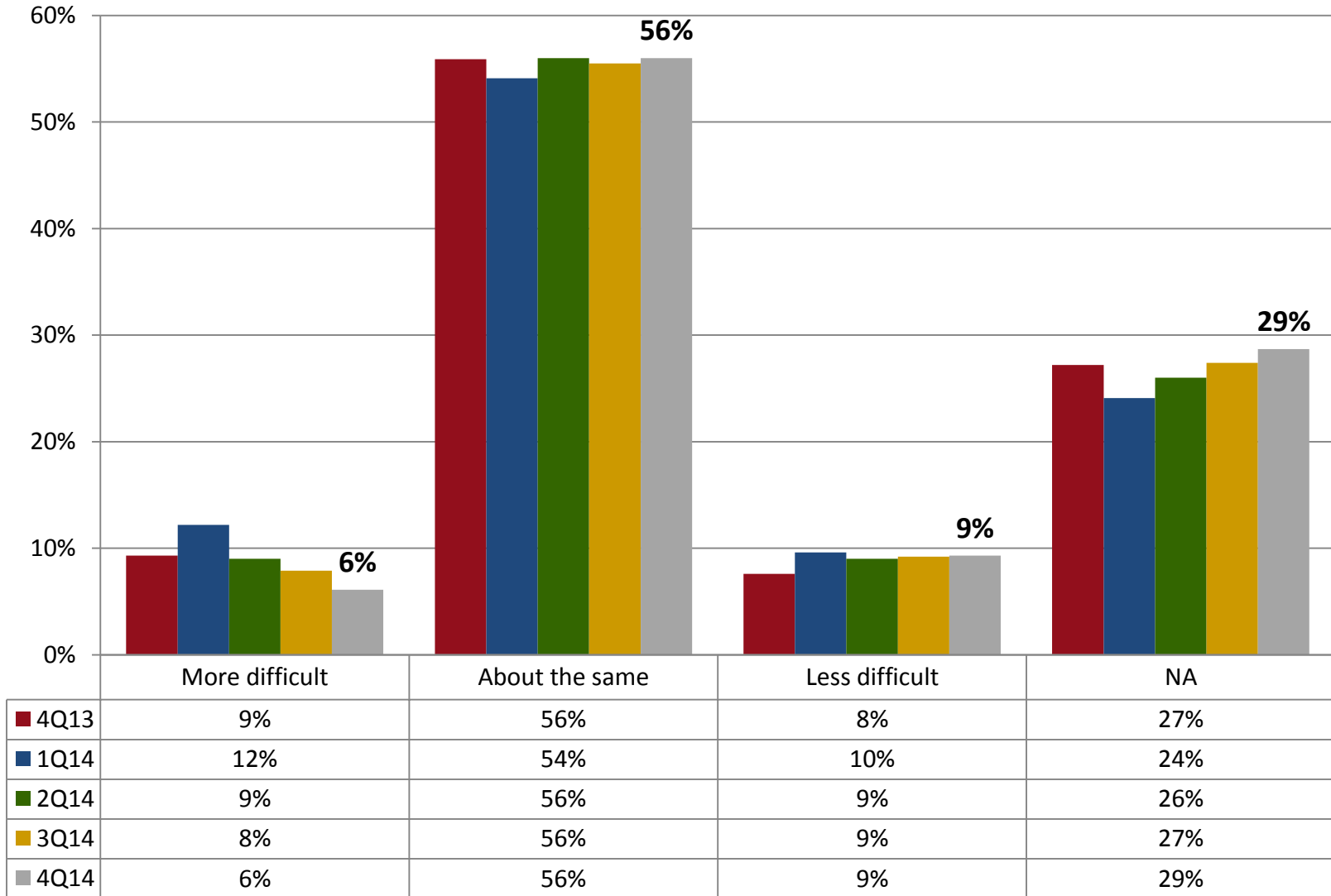
Cash & Liquidity Position

How would you characterize your organization's current liquidity position



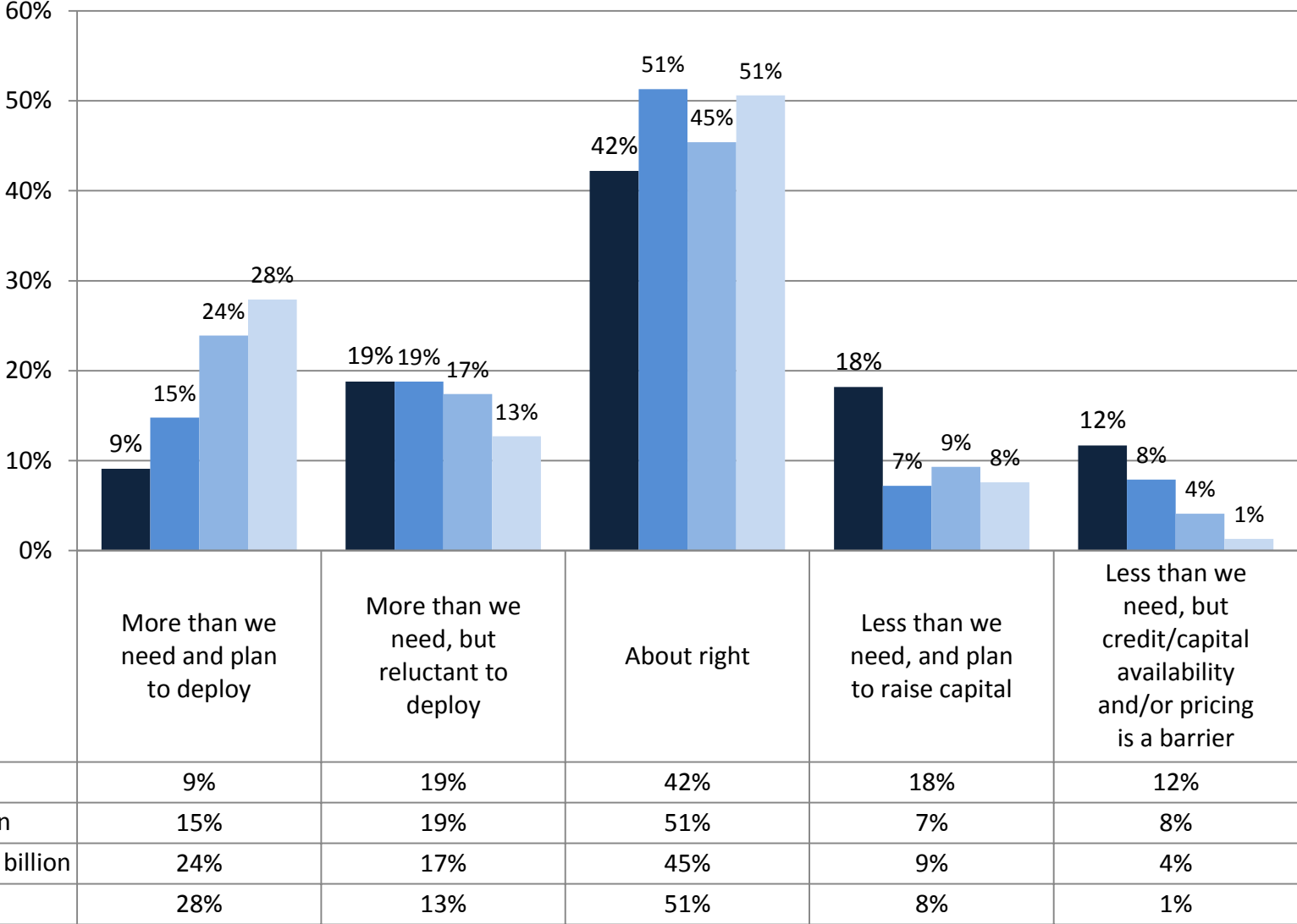
Difficulty Obtaining Required Financing

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 you characterize your organization's current liquidity position



Top Challenges

Top Challenges Facing Organizations

- **Regulatory requirements/changes maintains the #1 rank**
- **Availability of skilled personnel, employee and benefits costs, and domestic competition all moved up a notch to the #2, #3 and #4 slots**
- **Domestic economic conditions dropped three spots from the #2 position to #5**
- **Developing new products/services/markets moved up two slots from #8 to #6, while domestic political leadership dropped another slot from #6 to #7**
- **Changing customer preferences and materials supplies and equipment costs followed in the #8 and #9 slots**
- **Staff turnover reappeared in the #10 spot, while global economic conditions fell out of the top 10 ranking**

Top Challenges for Organizations

Please indicate the top three challenges for your organization

	4Q13	1Q14	2Q14	3Q 14	4Q 14
1	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes
2	Employee and benefits costs	Employee and benefits costs	Employee and benefits costs	Domestic economic conditions	Availability of skilled personnel
3	Domestic economic conditions	Domestic economic conditions	Availability of skilled personnel	Availability of skilled personnel	Employee and benefits costs
4	Domestic political leadership	Availability of skilled personnel	Domestic economic conditions	Employee and benefits costs	Domestic competition
5	Domestic competition	Domestic competition	Domestic competition	Domestic competition	Domestic economic conditions
6	Availability of skilled personnel	Domestic political leadership	Domestic political leadership	Domestic political leadership	Developing new products/services/markets
7	Stagnant/declining markets	Developing new products/services/markets	Developing new products/services/markets	Global economic conditions	Domestic political leadership
8	Developing new products/services/markets	Stagnant/declining markets	Stagnant/declining markets	Developing new products/services/markets	Changing customer preferences
9	Changing customer preferences	Changing customer preferences	Changing customer preferences	Stagnant/declining markets	Materials/supplies/equipment costs
10	Materials/supplies/equipment costs	Materials/supplies/equipment costs	Staff turnover	Materials/supplies/equipment costs	Staff turnover

Outlook by

Industry, Region and Business Size

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

■ Optimism up overall, but mixed across sectors

- **Construction** topped the charts this quarter, in terms of optimism, increasing to 78% from 69% optimistic in Q3; this optimism is also supported by plans for an increase in headcount of 3.1% over the coming year, up from a 2.1% projected increase last quarter
- **Healthcare – Other (pharmaceuticals, medical devices, etc.)** showed another jump this quarter up another 4 points from 71% in Q3 to 75% in Q4
- **Finance and Insurance** also jumped in optimism in Q4 to 71% from 61% in Q3
- **Manufacturing** essentially maintained its high level of optimism, easing only a point from 72% in Q3 to 71% in Q4
- **Professional, Scientific and Technical Services** which topped the charts in Q3 at 76% fell off this quarter to 68% optimistic
- **Real Estate** also fell off slightly from 70% optimistic in Q3 to 64% in Q4
- **Technology** optimism fell off sharply again this quarter to only 50% of respondents expressing optimism, down from a Q1 high of 80%; however technology hiring rebounded to a 4.0% rate being projected in Q4 for the coming year, up from a 2.3% projection in Q3

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

■ Other Sectors

- **Retail trade** optimism remained essentially unchanged, easing a point to 66% vs. 67% in Q3; however hiring fell back to a projected increase of only 1.6% after improving last quarter to 2.7%
- **Wholesale trade** also continued its improvement to 66% optimistic in Q4, up from 61% in Q3
- **Healthcare providers** which has long been the least optimistic industry group made a dramatic leap in Q4 to 65% optimistic, up from only 50% optimistic in Q3

■ Northeast stays steady, while Midwest jumps in optimism

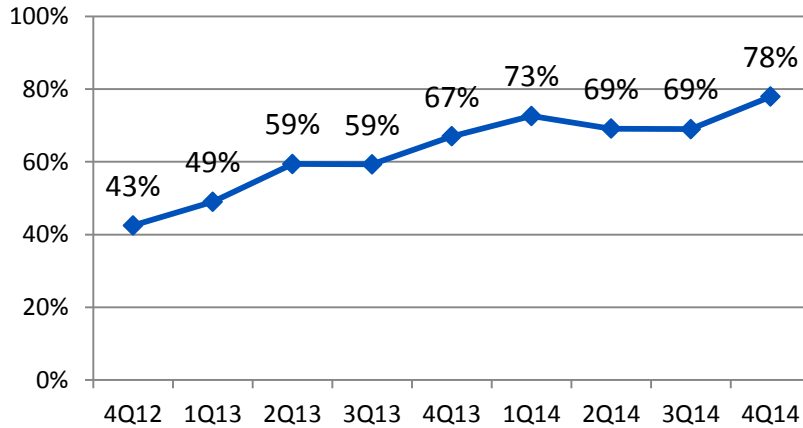
- Optimism decreased slightly from 68% to 66% in the **Northeast**
- The **Midwest**, which improved from 60% to 66% in Q3, made another jump from to 76% in Q4

■ Expansion plans improve significantly for smaller companies, also for the largest of companies

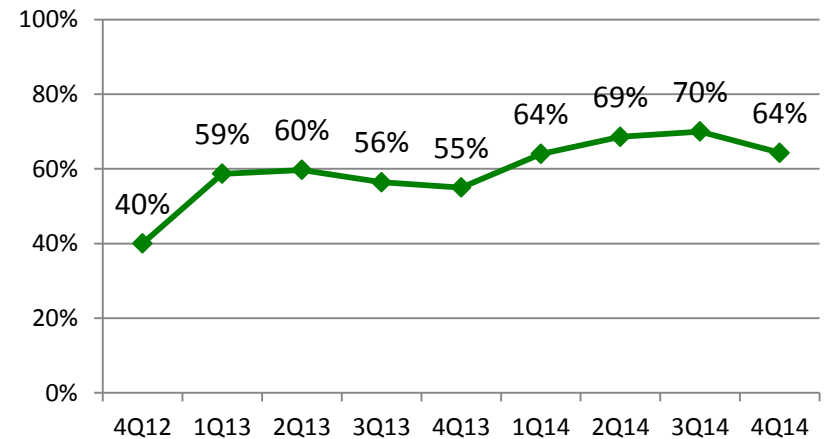
- The number of companies with revenues < \$10 million with plans to expand improved to 65% in Q4, up from 59% in Q3 and Q2
- 72% of companies in both the \$10 - \$100m and the \$100m to \$1b categories have plans to expand
- 75% of companies with revenues in excess of \$1 billion also expect to expand

Organization Optimism by Industry

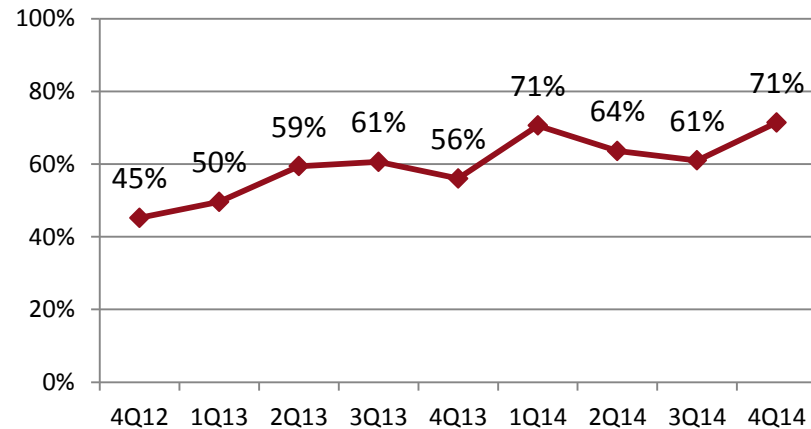
Construction



Real Estate

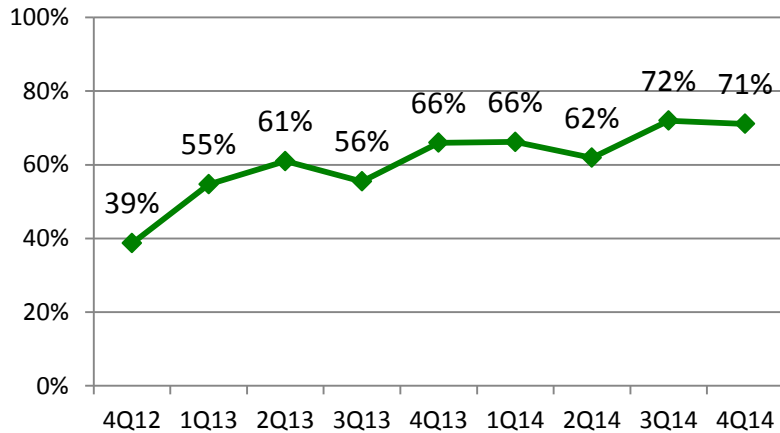


Finance & Insurance

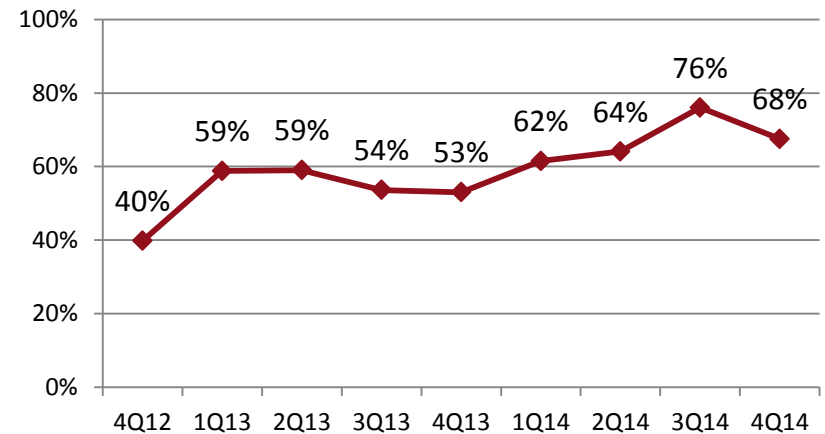


Organization Optimism by Industry

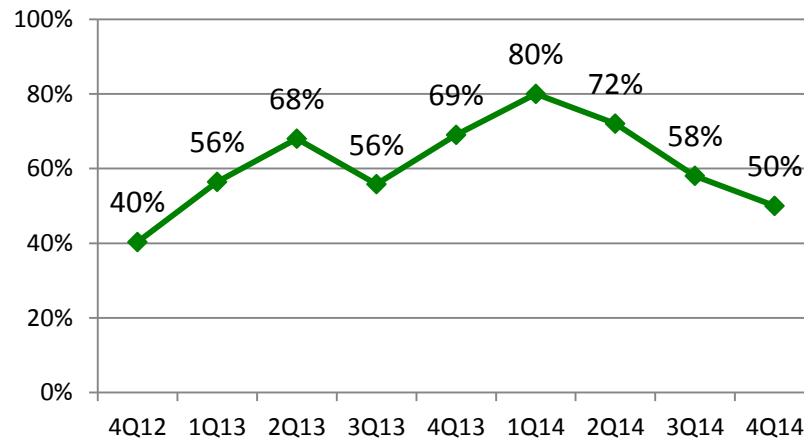
Manufacturing



Professional Service

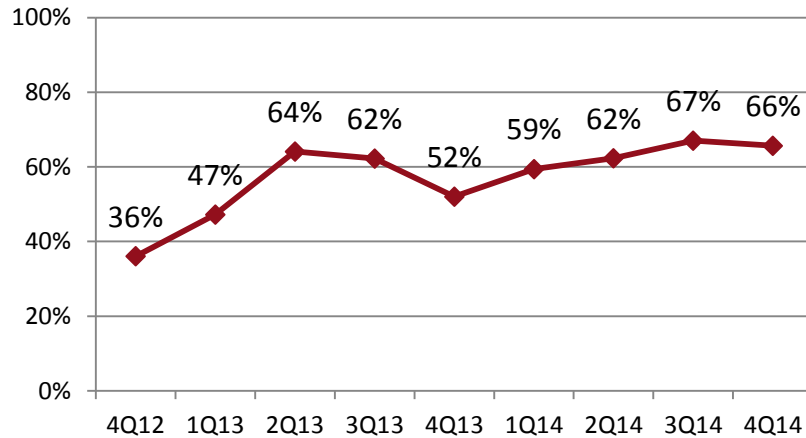


Technology

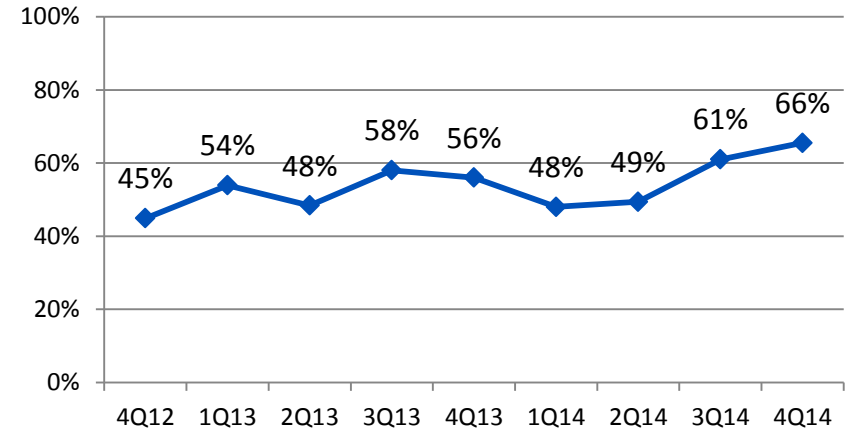


Organization Optimism by Industry

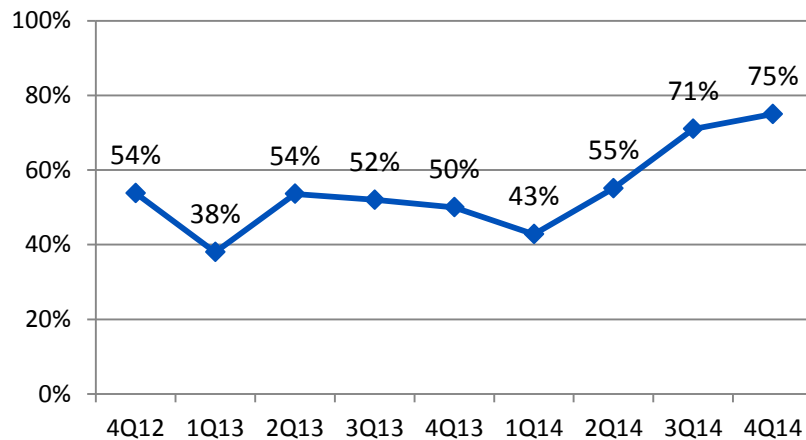
Retail Trade



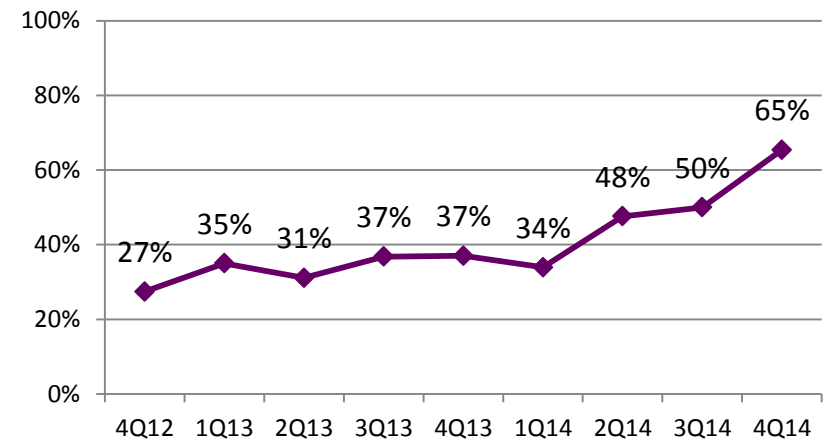
Wholesale Trade



Health Care Other

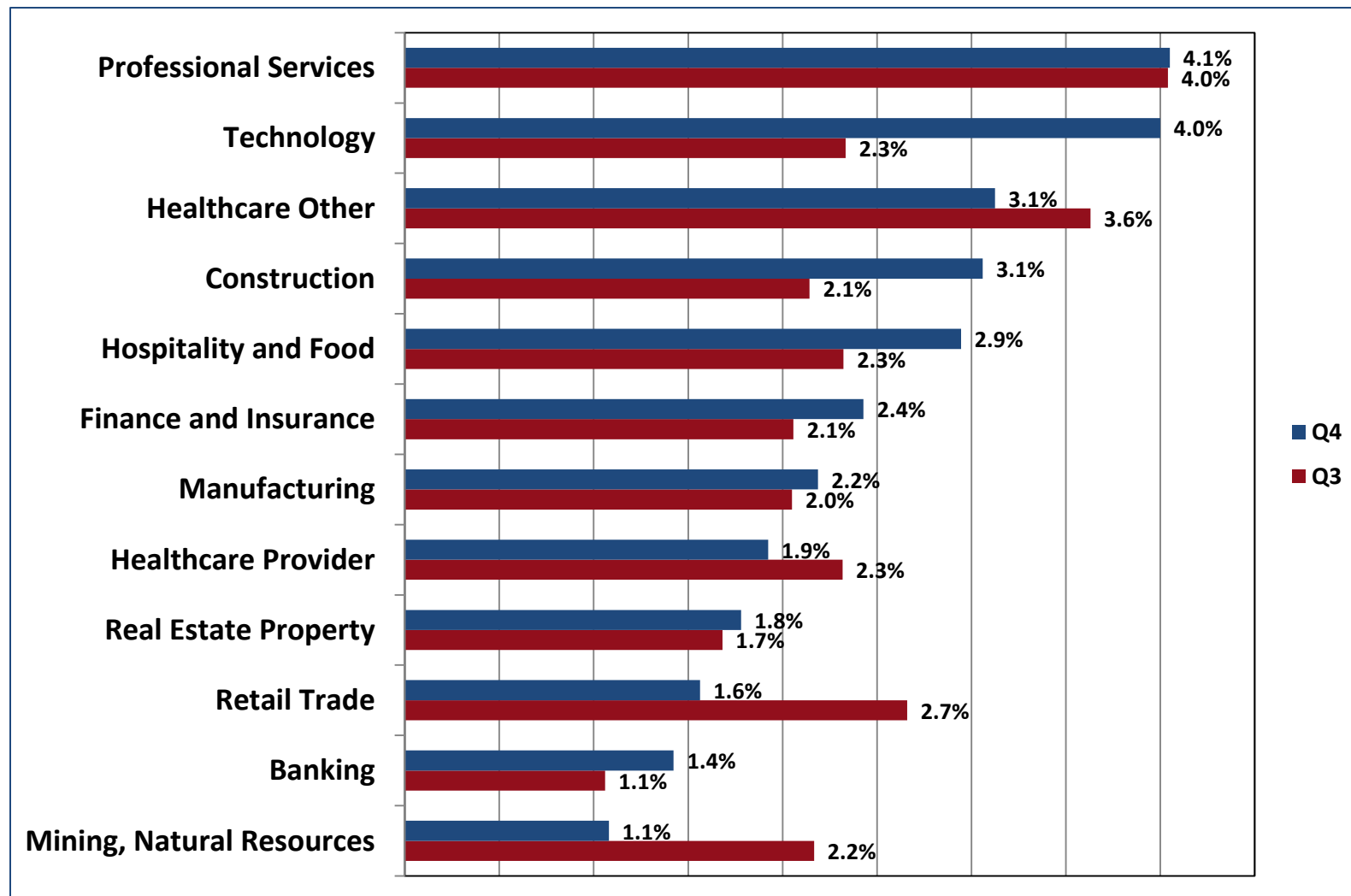


Health Care Provider



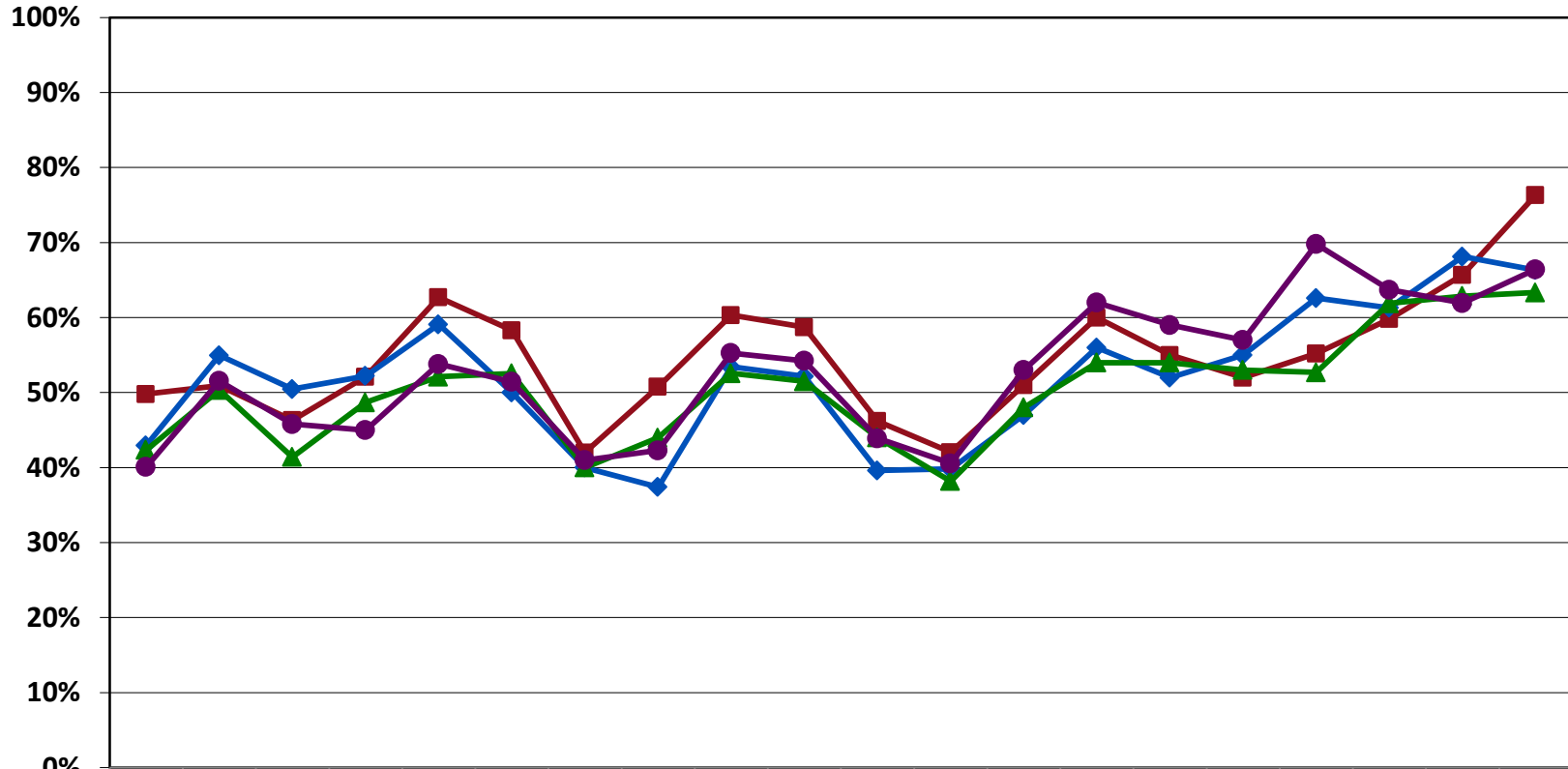
Expected Employment Change by industry

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



Organization Optimism by Region

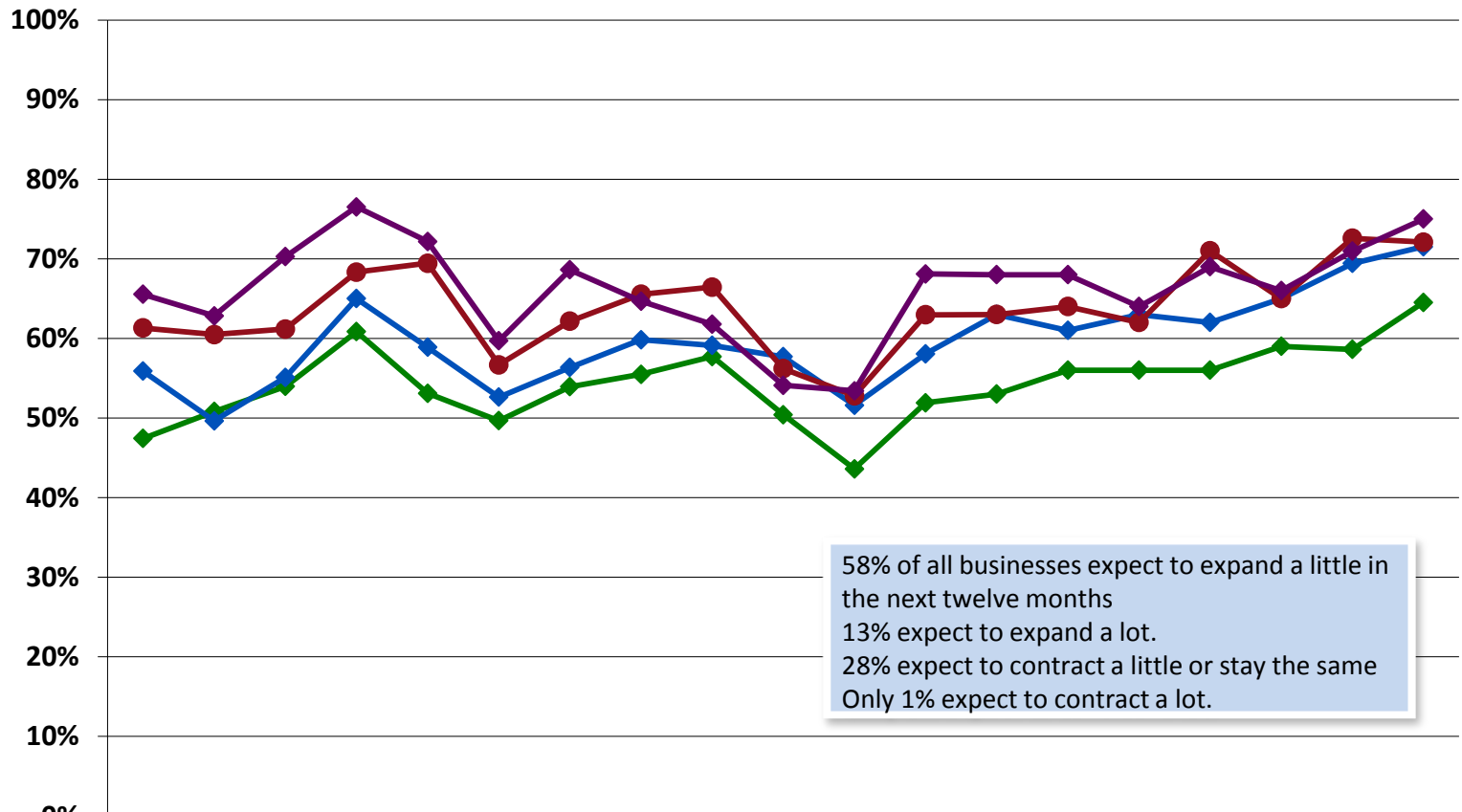
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months.



	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Midwest	50%	51%	46%	52%	63%	58%	42%	51%	60%	59%	46%	42%	51%	60%	55%	52%	55%	60%	66%	76%
Northeast	43%	55%	50%	52%	59%	50%	40%	37%	53%	52%	40%	40%	47%	56%	52%	55%	63%	61%	68%	66%
South	42%	50%	41%	49%	52%	53%	40%	44%	53%	51%	44%	38%	48%	54%	54%	53%	53%	62%	63%	63%
West	40%	52%	46%	45%	54%	51%	41%	42%	55%	54%	44%	41%	53%	62%	59%	57%	70%	64%	62%	66%

Expansion Plans by Business Size

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

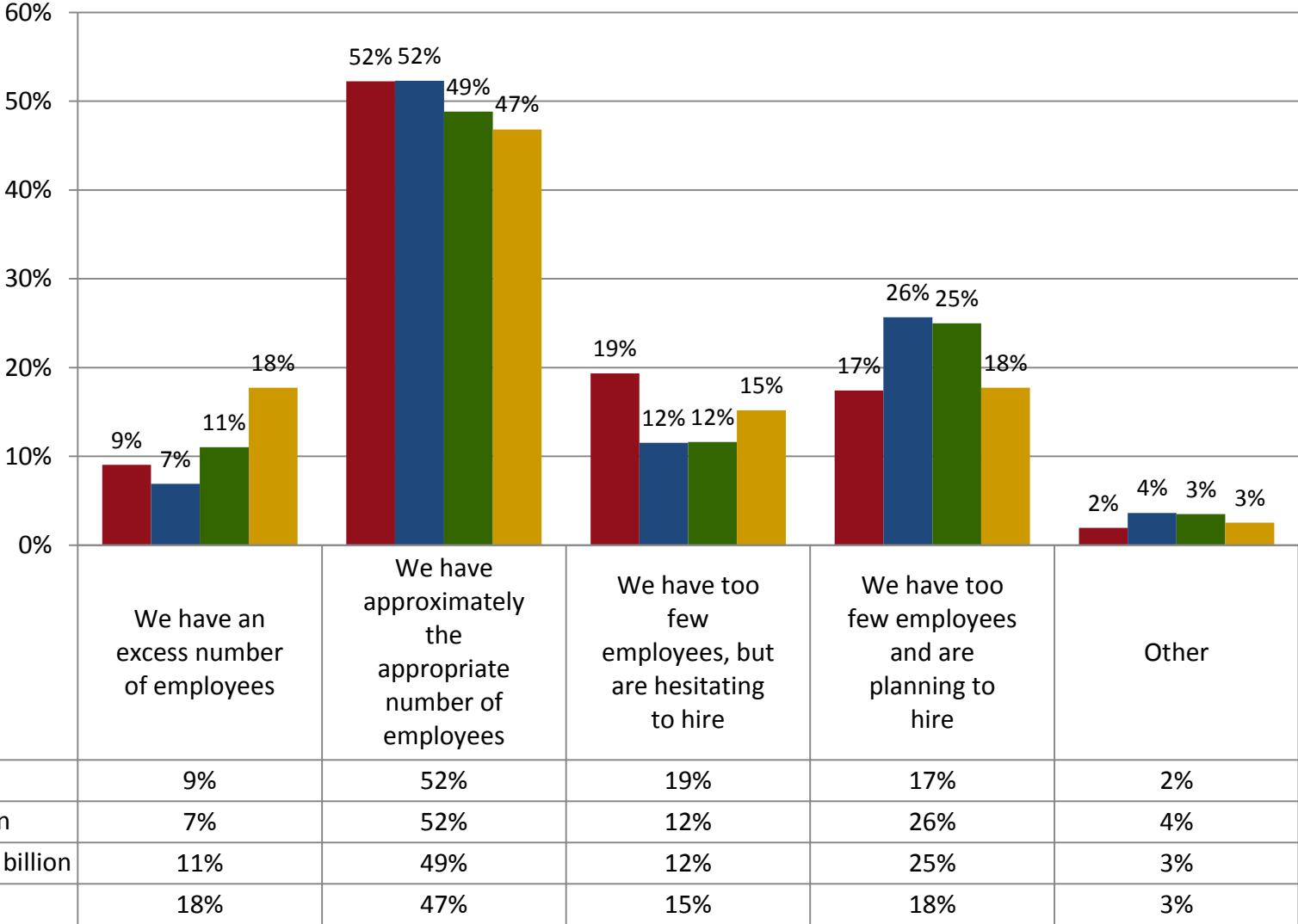


58% of all businesses expect to expand a little in the next twelve months
 13% expect to expand a lot.
 28% expect to contract a little or stay the same
 Only 1% expect to contract a lot.

	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
— < \$10 million	47%	51%	54%	61%	53%	50%	54%	55%	58%	50%	44%	52%	53%	56%	56%	56%	59%	59%	65%
— \$10 to <\$100 million	56%	50%	55%	65%	59%	53%	56%	60%	59%	58%	52%	58%	63%	61%	63%	62%	65%	69%	72%
— \$100 million to <\$1 billion	61%	60%	61%	68%	69%	57%	62%	66%	66%	56%	53%	63%	63%	64%	62%	71%	65%	73%	72%
— > \$1 billion	66%	63%	70%	77%	72%	60%	69%	65%	62%	54%	53%	68%	68%	68%	64%	69%	66%	71%	75%

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)?



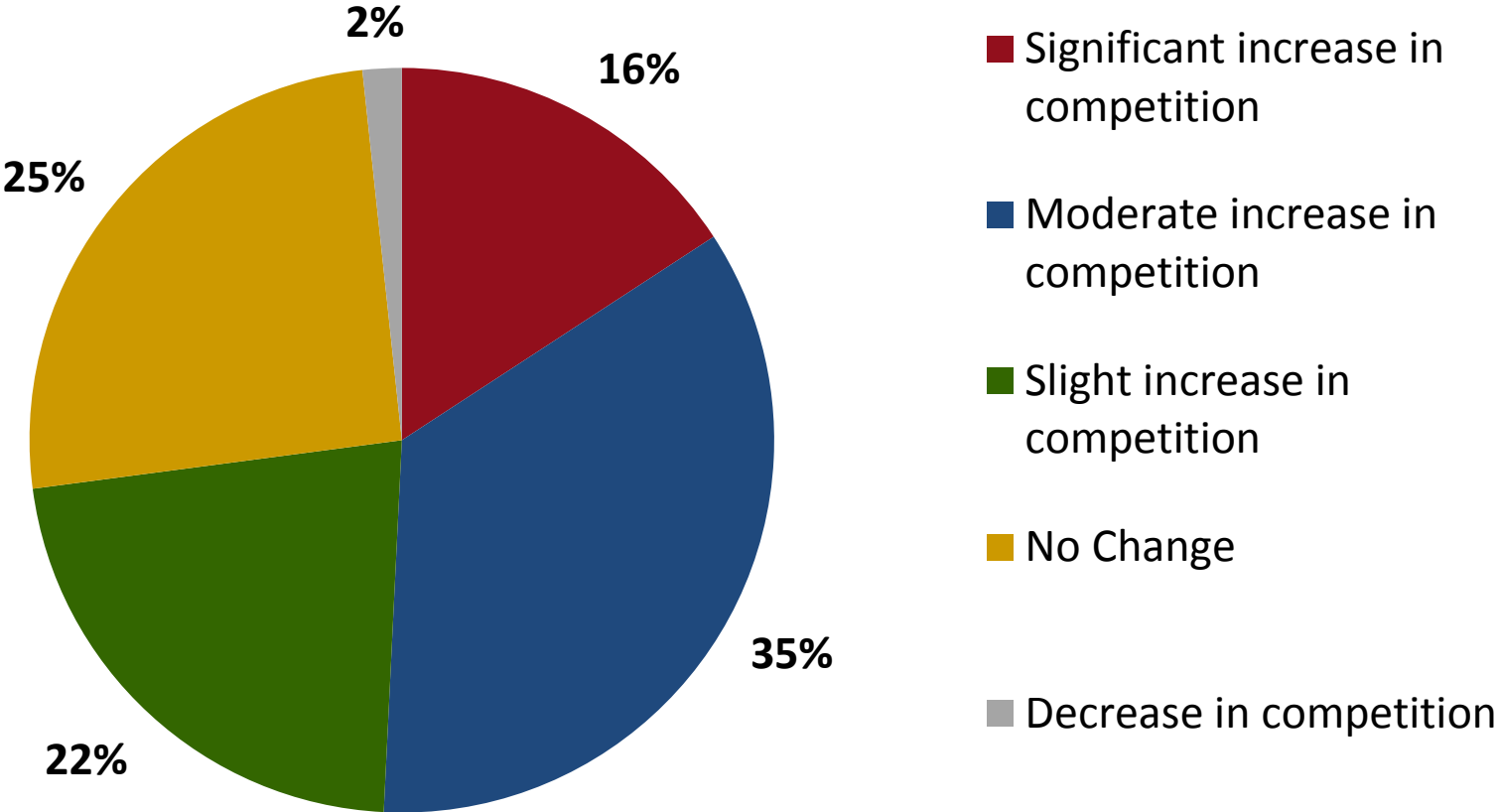
Survey Within a Survey

Competition for Talent

73% of respondents have seen an increase in competition for skilled hires

There is some evidence of a talent shortage at more skilled positions as the economy improves. In your recent recruiting efforts, what level of competition are you seeing for candidates?

Competition for Skilled Hires



Competition for Talent

Effects on businesses

- 25% of respondents had lost out on top candidates
- 26% have had important jobs open for extended periods of time
- 27% have had to settle for less than ideal candidates

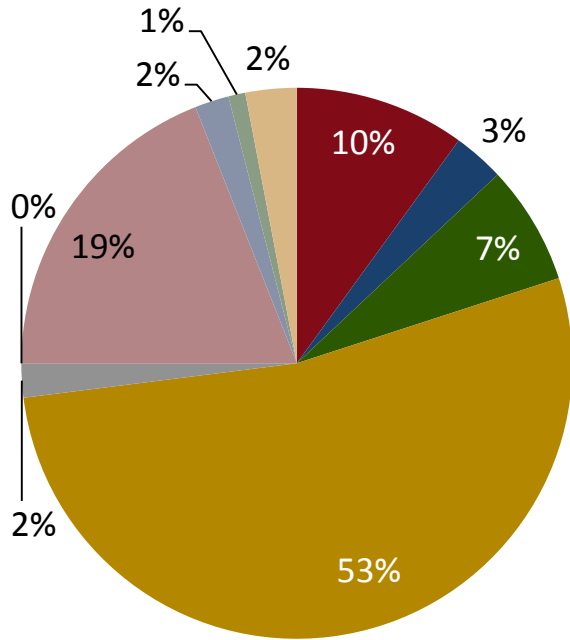
What businesses are doing to compete

- Over a third (35%) of respondents are offering higher salaries to attract top talent
- 20% are offering other financial incentives such as 401(k) match, employee stock options or an enhanced benefit package
- Businesses are also using other methods to overcome the challenges of a tighter job pool:
 - 41% are promoting from within
 - 28% are doing more in-house training
 - 18% are working to create more precise job descriptions for skilled positions

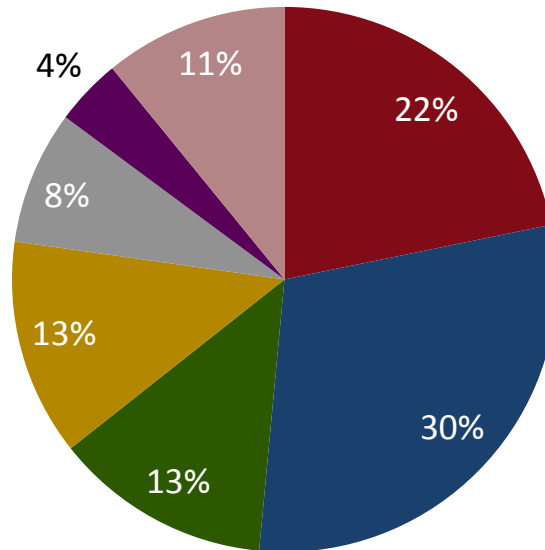
Demographics

Demographics

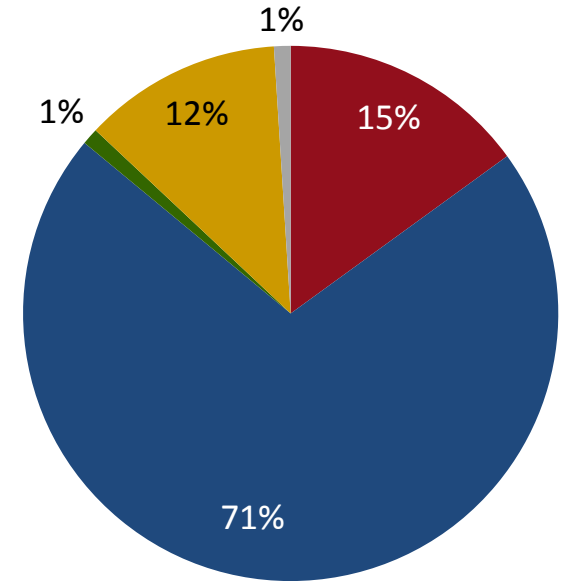
Position



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

■ Government

■ Not for Profit

■ Other



AICPA
Business and Industry
Economic Outlook Survey
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For additional information contact:

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