

## **NEWS RELEASE**

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### **SUBPRIME WOES AND CREDIT MARKET TURMOIL BRING DOWN FINANCIAL EXECUTIVES' CONFIDENCE IN THE U.S. ECONOMY**

**NEW YORK (Nov. 16, 2007)** – Optimism about the economy among CPAs serving as senior-level executives plunged in the fourth quarter to its lowest level in three years, according to the latest Business and Industry Economic Outlook Survey of the American Institute of Certified Public Accountants.

Less than one-third, or 30 percent, of respondents said in October that they were optimistic about the U.S. economic outlook over the next 12 months. That was a 17 percentage-point drop from 47 percent in July who said they were optimistic. At the same time, pessimism rose in the latest survey to 26 percent, an 11 percentage-point increase from 15 percent of respondents who held negative views of the U.S. economy three months earlier.

“This is the first time since we launched the Economic Outlook survey three years ago that so many CPAs in business and industry have expressed this level of anxiety about the state of the U.S. economy,” said John Morrow, AICPA vice president for business, industry and government.

More than half of CPAs surveyed cited subprime mortgage losses, a slowdown in U.S. housing and tightening credit conditions for their shift in sentiment. Other concerns were rising prices of oil and gas as well as the declining value of the U.S. dollar.

The survey was conducted Oct. 10-28 via a questionnaire emailed to AICPA Business, Industry and Government members. With 1,171 qualified responses, the margin of error was plus-or-minus 3 percentage points.

Sixty-nine percent of the respondents in October said the Federal Reserve’s cut of 50 basis points in its federal funds target rate to 4.75 percent on Sept. 18 was necessary to prevent market

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turmoil from stalling the economy. One-quarter felt it was unnecessary and may reinforce poor risk decisions.

Despite the gloomy view of the U.S. economy, 60 percent of CPA executives expect to see growth in revenues and profits within their own organizations. That was a decline of five percentage points from 65 percent who expected growth in July. Job creation may not be as robust. Less than half, 48 percent, said they expect to add employees over the next 12 months, while 18 percent foresee layoffs.

Healthcare costs remain a significant challenge, according to 96 percent of respondents. Forty percent said their organizations anticipate that health care costs will continue to grow at a pace greater than 8 percent over the next year.

When the AICPA first conducted this survey in June 2004, 75 percent of respondents said they were optimistic or very optimistic about the U.S. economy. One year later, optimism dropped to 57 percent. In June 2006, optimism showed further erosion to 46 percent.

## **Methodology**

Many CPAs hold leadership positions as chief executives, chief operating officers or chief financial officers in their companies and therefore are able to express well-informed expectations for both the U.S. economy and their organizations.

Of the 1,242 respondents, half serve as Chief Financial Officers, 20 percent were Controllers and 13 percent were Chief Executive or Chief Operating Officers. Sixty-six percent of respondents work at privately owned entities; 17 percent for public companies; 10 percent in government, education and not-for-profits; and 5 percent for foreign-owned companies. Thirteen percent were from large companies with annual revenues of more \$1 billion; 20 percent from organizations with \$100 million to under \$1 billion in annual revenues; and 67 percent from companies with less than \$100 million in revenues.

More information is available on the AICPA Financial Management Center Web site at <http://fmcenter.aicpa.org/>.

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The American Institute of Certified Public Accountants ([www.aicpa.org](http://www.aicpa.org)) is the national, professional association of CPAs, with more than 350,000 members, including CPAs in business and industry, public practice, government, and education; student affiliates; and international associates. It sets ethical standards for the profession and U.S. auditing standards for audits of private companies; federal, state and local governments; and non-profit organizations. It develops and grades the Uniform CPA Examination.

The AICPA is the sponsor of a national public-education effort called 360 Degrees of Financial Literacy ([www.360financialliteracy.org](http://www.360financialliteracy.org)), designed to improve the financial understanding of Americans at all age levels. A related campaign, Feed the Pig ([www.feedthepig.org](http://www.feedthepig.org)), co-sponsored with the Ad Council, is designed to help Americans 25 – 34 save for long-term financial security.

The AICPA maintains offices in New York; Washington, D.C.; Durham, N.C.; Ewing, NJ; and Lewisville, TX.

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