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CHIEF FINANCIAL OFFICERS, CPA EXECUTIVES SEE U.S. ECONOMY IN RECESSION

Pessimism Deepens in AICPA-UNC Economic Survey

DURHAM, N.C. (August 14, 2008) – The U.S. economy has already entered a recession and the outlook remains negative according to a majority of chief financial officers and senior-level executive CPAs surveyed by the American Institute of Certified Public Accountants and the University of North Carolina’s Kenan-Flagler Business School.

For a third consecutive quarter, executive CPAs serving in business and industry continue to foresee slowing economic growth ahead, the latest AICPA-UNC Business and Industry Economic Outlook Survey shows.

“Our members are still seeing increased pressure on profits from rising costs without the ability to raise prices,” said Chris McKittrick, director of members in business, industry and government for the AICPA. “Expectations for revenue and hiring are trending downward.”

A 62 percent majority of CPA respondents said they were pessimistic or very pessimistic about the economic outlook for the U.S. over the next 12 months, an increase in pessimism from 57 percent who held negative expectations in the second quarter. Fifty-seven percent of respondents said they believe the U.S. economy has already entered a recession. The survey found only 10 percent of CPAs in executive positions expressed optimism about the economy, a decline from 12 percent in the second quarter.

“It is hard to see much good news here,” said Mark Lang, PhD, a professor of accounting at UNC Kenan-Flagler. “There were some hopeful signs in last quarter’s survey suggesting that the economy might be bottoming out, but weakness persists across the board. The fact that firms continue to reduce planned growth in capital investment, staff development and employment is particularly troubling since it suggests that slowdown could have longer-term implications.”

Chief financial officers remain more optimistic about their own organizations than they are about the broader U.S. economy, although the declining trend in economic outlook is mirrored in declining optimism for their own companies.

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“As I met people at our Controller’s Workshop in Las Vegas in July I asked many of them this simple question: ‘How’s your business?’ I was surprised by how many responses I got like ‘Just fine’ and ‘We’re ahead of last year and ahead of plan,’” McKittrick said. “Maybe things are not as bad as we might be lead to believe and the tough times are limited to certain industries at this time.”

Thirty-eight percent of executive CPAs said they were optimistic or very optimistic about their organization’s economic prospects over the next 12 months, a 7 percentage point decline from 45 percent who were upbeat in the second quarter. At the same time, financial executives with pessimistic or very pessimistic views of their own organization’s outlook increased to 27 percent in the quarter, up from 22 percent in the prior period.

Fed Policy, Energy Prices

Notwithstanding the pessimism for the economy, CFOs and executive CPAs said Congress and the Federal Reserve should refrain from pumping more cash into the economy. Asked whether Congress should pass a second economic stimulus package to boost the economy, 74 percent rejected the idea. A strong majority of 62 percent said the Fed should maintain interest rates at current levels.

Addressing oil prices, 36 percent of CPA decision-makers support opening up additional land and offshore areas for drilling and 27 percent support additional financial incentives for alternative energy. Nine percent said the government should take no action and let the market drive responses. There was very little support - 3 percent - for releasing oil from the Strategic Petroleum Reserve. When asked what actions, if any, companies are taking to help their employees with high gasoline prices, 63 percent said “none.” Thirteen percent were implementing flexible or compressed work schedules and 11 percent allow telecommuting.

Economic Data

There is some debate among economists about whether the U.S. is presently in a recession or will enter a recession as the economy slows. The Business Cycle Dating Committee of the National Bureau of Economic Research in Cambridge, Mass., defines a recession as a ‘significant’ decrease in activity over a sustained period of time measured by declines in GDP, payrolls, production, sales and incomes. The NBER usually declares a recession six to 18 months after it begins. A widely-used definition of a recession is two consecutive quarters of declining Gross Domestic Product. U.S. GDP declined in the fourth quarter of 2007, but rose in the first and second quarters of 2008, according to the U.S. government’s inflation-adjusted numbers. Revised second quarter data is due Aug. 28.

Methodology

More than 1,180 CPAs who are senior-level executives responded to the third quarter Business and Industry Economic Outlook Survey, conducted via an online questionnaire, July 22 to August 5. The margin of error was less than plus-or-minus 3 percentage points. CPAs who hold leadership positions as chief executives, chief operating officers, chief financial officers or controllers in their companies hold well-informed expectations for both the U.S. economy and their organizations. More information and full poll results are available on the AICPA Financial Management Center Web site at <http://fmcenter.aicpa.org/>.

About UNC Kenan-Flagler

The University of North Carolina at Chapel Hill's Kenan-Flagler Business School is known for innovative research and extraordinary learning experiences. Its commitment to developing socially responsible, results-driven leaders distinguishes its programs, which educate people at every stage of their careers.

UNC Kenan-Flagler prepares business leaders to manage successfully in the global business environment through its Master of Accounting, MBA, MBA for Executives undergraduate BSBA, PhD and Executive Development programs. The Frank Hawkins Kenan Institute of Private Enterprise helps business and government tackle problems with impact on society. <http://www.kenan-flagler.unc.edu/>

About the AICPA

The American Institute of Certified Public Accountants (www.aicpa.org) is the national, professional association of CPAs, with more than 350,000 CPA members in business and industry, public practice, government, education as well as student affiliates, and international associates.

It sets ethical standards for the profession and U.S. auditing standards for audits of private companies, non-profit organizations, federal, state and local governments. It develops and grades the Uniform CPA Examination. The AICPA publishes the Web site www.IFRS.com to inform members and the public about international accounting standards.

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

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