AICPA Business & Industry U.S. Economic Outlook Survey 1Q 2015

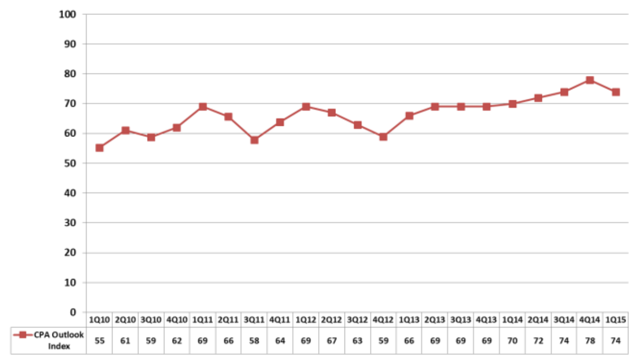
The CPA Outlook Index

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 ⬇ 04

The CPA Outlook Index (CPAOI) decreased 4 points in the first quarter of 2015, with a 2 point increase in optimism about the US economy being offset by and decline in organizational optimism and all other component of the index.

Year over year comparisons for each component are either postive or flat. Optimism, revenue and expansion plans continue to be strong and employment plans continue to be the softest index component.



Component	1Q14	2Q14	3Q14	4Q14	1Q15	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	65	67	69	78	80	↑ 02	↑ 15
Organization Optimism	74	75	78	80	76	↓ 04	↑ 02
Expansion Plans	74	76	79	81	74	↓ 07	→ 00
Revenue	76	77	82	85	78	↓ 07	↑ 02
Profits	70	69	74	79	72	↓ 07	↑ 02
Employment	64	65	70	73	68	↓ 05	↑ 04
IT Spending	76	77	79	80	76	↓ 04	→ 00
Other Capital Spending	67	70	74	75	71	↓ 04	↑ 06
Training & Development	68	70	73	75	70	↓ 05	↑ 08
Total CPAOI	70	72	75	78	74	↓ 04	↑ 04

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%].

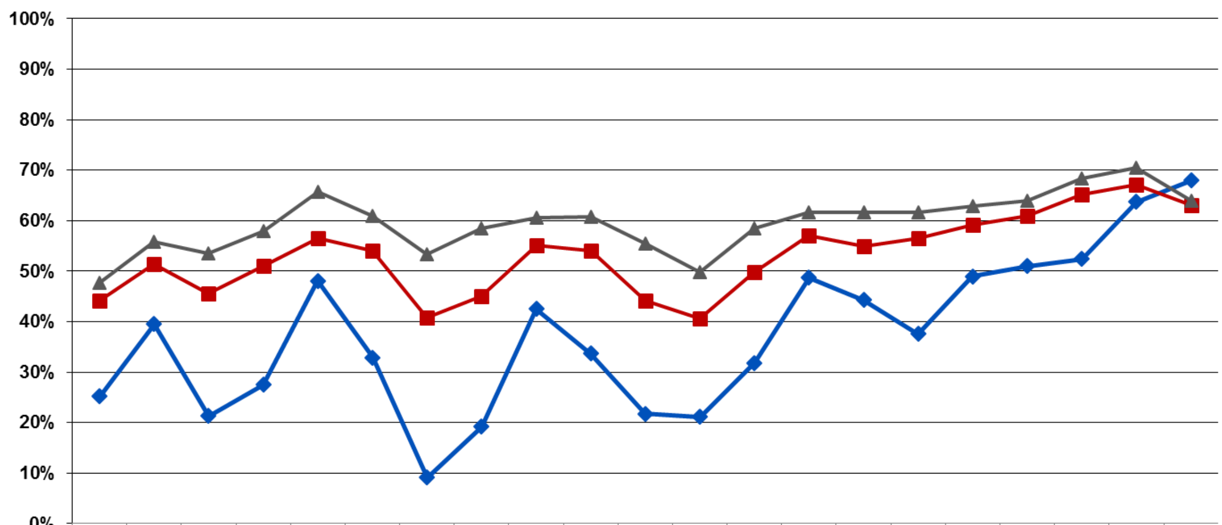
Outlook for the US Economy and Organizations

Positive view of US Economy offset somewhat by tapering of organization growth and spending plans

The number of respondents who are optimistic about the economy increased to a new high of 68% across all sectors after lagging behind organization optimism and plans through the fourth quarter of 2014. However, following several strong quarters of improvement, CPA executive optimism about their own organization's prospects, their expansion, spending and hiring plans tapered off in the first quarter of 2015.

Those who are optimistic most frequently cited continued economic growth, the employment situation, consumer spending and the reduction in energy costs as the factors driving their opinion. The drop in energy prices was also cited by the pessimists, along with ongoing concern about the political/leadership situation.

Outlook for the US Economy, Organizations & Expansion



	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15
US	25%	40%	21%	28%	48%	33%	9%	19%	43%	34%	22%	21%	32%	49%	44%	38%	49%	51%	52%	64%	68%
Organization	44%	51%	46%	51%	57%	54%	41%	45%	55%	54%	44%	41%	50%	57%	55%	57%	59%	61%	65%	67%	63%
Expansion	48%	56%	54%	58%	66%	61%	53%	59%	61%	61%	56%	50%	58%	62%	62%	62%	63%	64%	68%	71%	64%

Concerns about inflation continue to be relatively low. In the first quarter, 23% of CPA respondents are concerned about the prospects for inflation over the next six months, slightly down from 27% in the fourth quarter of 2014; only 12% expressed concerned about deflation which up two points from the fourth quarter of 10%.

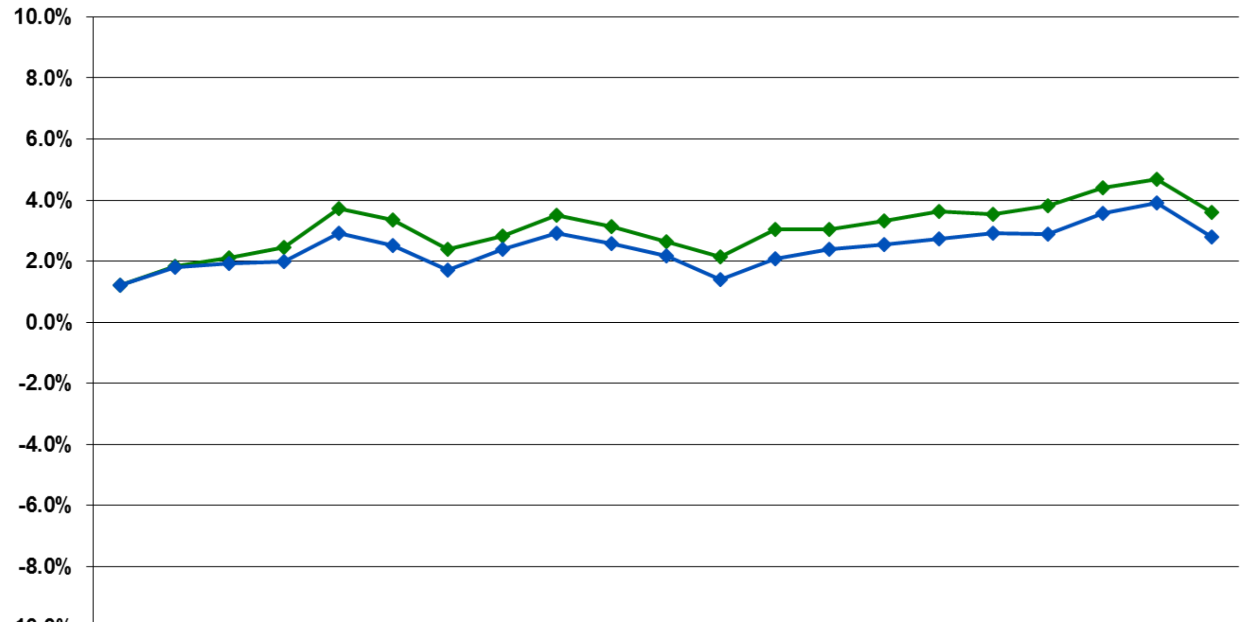
Labor costs continue to be the factor representing the most significant risk to business cited by 36% of respondents. Concern about energy costs declined from 14% to 11% and concern about raw materials costs declined by 3 points from 23% to 20%. Interest rates represent the most significant risk to 24% of respondent's businesses, up from 21% in the fourth quarter of 2014.

Key Performance Indicators

Outlooks for revenue and profits fall off from Q4 2014 highs

Expectations for increased revenues fell off from the high of 4.7 % we saw in the fourth quarter of 2014 to 3.6% this quarter. Expectations for profits also declined from 3.9% in the fourth quarter 2014 to a 2.8% expected increase over the course of the coming twelve months.

Expectations for Revenue and Profits



	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15
Revenue	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%	4.4%	4.7%	3.6%
Profit	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%	3.6%	3.9%	2.8%

While respondents' expectations for increased input prices remained flat at 2.1%, their anticipated ability to increase prices charged for their products and services over the next twelve months declined from 1.7% in the fourth quarter to only 1.4%.

Expectations for healthcare cost increases continue to be higher than other costs but eased slightly again in the first quarter to 5.8%.

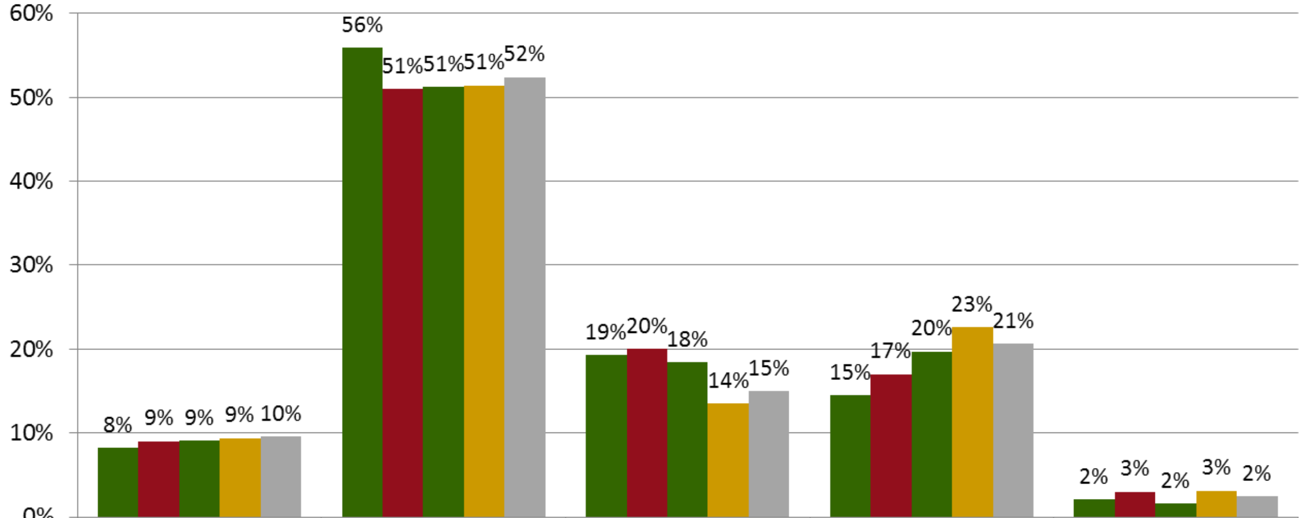
With the exception of the expected increase in "other" capital spending, which declined from a projection of 3.2% last quarter to 2.4% for the upcoming twelve months in the first quarter of 2015, spending plans remained relatively consistent. IT spending plans continue to be strong, but eased from 3.3% in the fourth quarter to 3.1%. Training also eased from a post-recession high of 2.2% in the fourth quarter 2014 to 1.6% in the first quarter 2015. Marketing spending projections eased from 1.8% to 1.6%, and the anticipated increase in spending for research and development remained flat at 1.3%.

Hiring Plans

Hiring plans ease slightly but continue to be positive

Slightly more than half of all companies (52%) continue to say they have the right number of employees. The number of companies that say they have too many employees returned to 10% after maintaining at 9% through most of 2014. The number of companies that say they have too few employees but are hesitating to hire increased a point to 15%, but still remains below the 20% mark that we saw in the second quarter of 2014. The number of companies with too few employees who are planning to hire also fell off slightly, but at 21% is still more positive than the readings in the teens during the first half of 2014 and prior.

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
1Q14	8%	56%	19%	15%	2%
2Q14	9%	51%	20%	17%	3%
3Q14	9%	51%	18%	20%	2%
4Q14	9%	51%	14%	23%	3%
1Q15	10%	52%	15%	21%	2%

Industry, Region and Business Size Outlook

Optimism continues to be strong but mixed across sectors

Construction continue to top the charts again this quarter, in terms of optimism, increasing to 83% optimistic, compared to 78% optimistic in the fourth quarter of 2014. Real estate industry optimism also improved from 64% to 68% in the first quarter. This improvement in optimism in the real estate sector is reflected in hiring plans which improved significantly from only a planned staffing increase of 1.8% in the fourth quarter of 2014 to a chart-topping 3.6% this quarter. While hiring in construction eased slightly from a high of 3.1% last quarter, it is expected to continue to be strong at 2.7% for the coming twelve months.

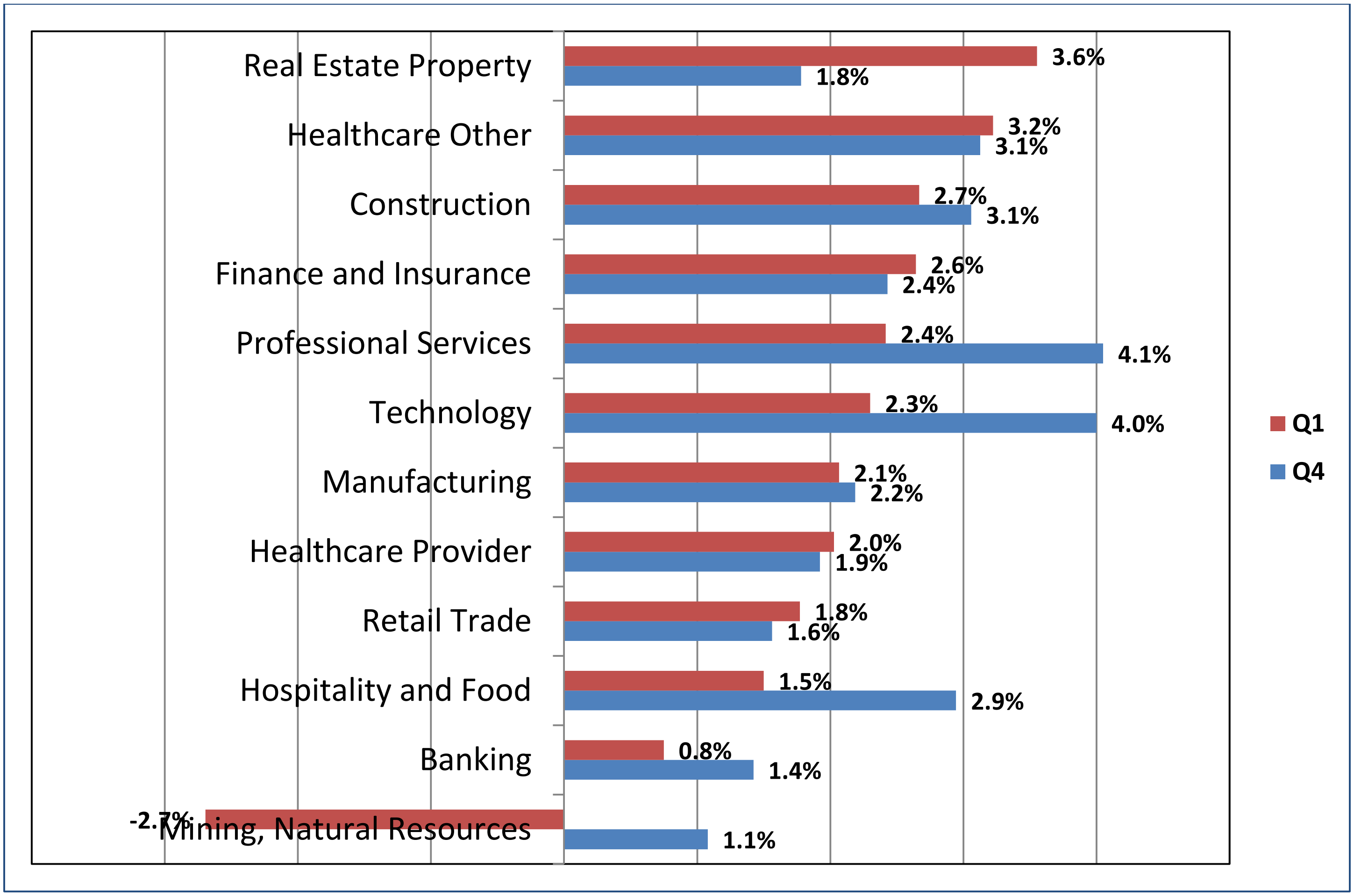
Optimism in the technology sector rebounded sharply from a low of only 50% in the fourth quarter of 2014 to now 80% of respondents expressing optimism about their organization's prospects. However, hiring plans did ease slightly from a projection of 4.0% last quarter to only 2.3% in the first quarter.

Professional, scientific and technical services recovered to 72% optimistic, after easing off to 68% in the fourth quarter 2014, following a high of 76% in the third quarter 2014. Hiring in professional services also eased from 4.1% in the fourth quarter to a 2.4% projection looking forward from the first quarter of 2015.

Optimism in manufacturing eased from being above 70% for the past two quarters to only 63% continuing to be optimistic currently. However, manufacturing hiring continues to be relatively strong, easing only a tenth of a point from 2.2% looking ahead from the fourth quarter to 2.1% from the first quarter of 2015.

On the down-side, optimism in the healthcare provider and healthcare-other sectors fell off in the first quarter from high levels in the fourth quarter of 2014, and the impact of the fall in oil and gas prices is projected to take a significant toll on employment plans. As of the first quarter 2015 survey, the projected headcount plans for the mining and natural resources sector is a reduction of 2.7%.

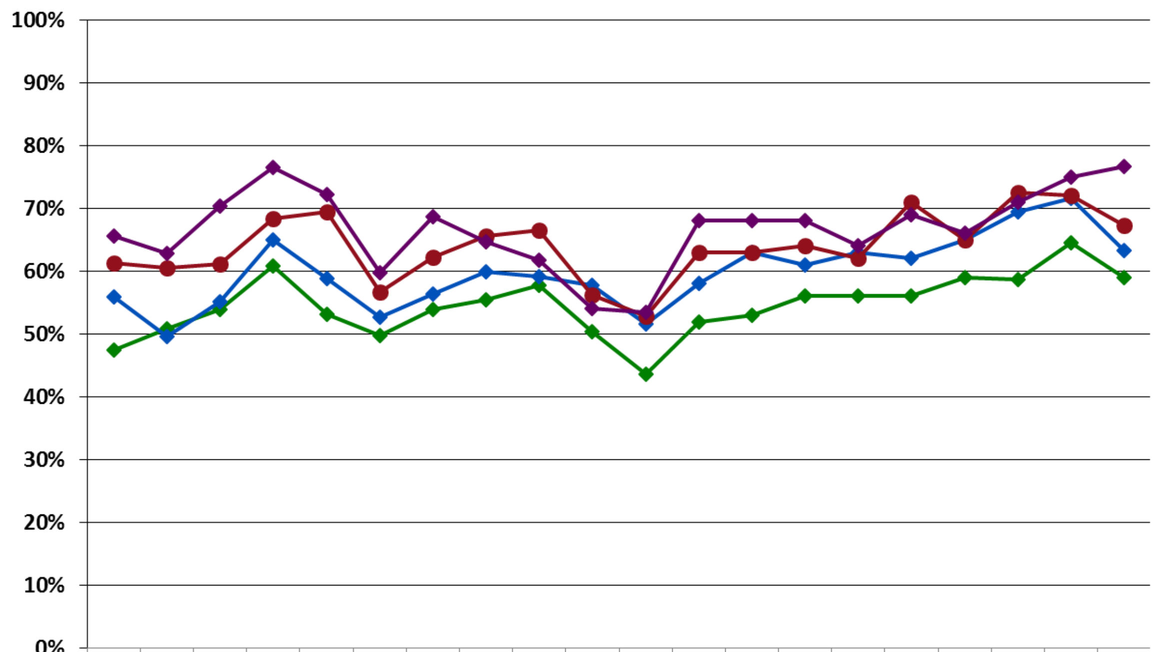
Expected Employment Change by Industry



In terms of regional perspective, optimism in the Midwest, which improved significantly in 2014 to 76% optimistic in the fourth quarter, eased to 65% in the first quarter 2015. Roughly two-thirds of respondents in the other regions are also optimistic, showing slight improvement in the first quarter.

The percentage of companies in the revenue greater than $1 billion category continues to be strong, improving two points from 75% in the fourth quarter to 77% in the first quarter of 2015. At the other end of the company size spectrum, the percentage of companies with revenues less than $10 million with plans to expand their operations declined from 65% in the fourth quarter to 59%.

Expansion Plans by Business Size



	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15
< $10 million	47%	51%	54%	61%	53%	50%	54%	55%	58%	50%	44%	52%	53%	56%	56%	56%	59%	59%	65%	59%
$10 to <$100 million	56%	50%	55%	65%	59%	53%	56%	60%	59%	58%	52%	58%	63%	61%	63%	62%	65%	69%	72%	63%
$100 million to <$1 billion	61%	60%	61%	68%	69%	57%	62%	66%	66%	56%	53%	63%	63%	64%	62%	71%	65%	73%	72%	67%
> $1 billion	66%	63%	70%	77%	72%	60%	69%	65%	62%	54%	53%	68%	68%	68%	64%	69%	66%	71%	75%	77%

Top Challenges

Regulatory requirements continue to top the list followed by domestic competition

Domestic competition moved up two notches in the ranking of top challenges facing organizations to the number two slot, following regulatory requirements and changes which continues to hold down the top slot. Domestic economic conditions continues in the fifth slot, and domestic political leadership returned to the sixth spot after easing a notch in the fourth quarter survey to number seven.

Employee and benefits costs maintain the number three ranking, but the availability of skilled personnel fell two notches from the second to the fourth ranking challenge, and staff turnover, which was the tenth ranking challenge in the fourth quarter of 2014 has fallen out to the "top-ten" this quarter.

Product, service and market related issues continue to round out the bottom half of the list.

Top Challenges Facing Organizations

	1Q14	2Q14	3Q 14	4Q 14	1Q 15
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	Domestic economic conditions	Availability of skilled personnel	Domestic competition
3	Domestic economic conditions	Availability of skilled personnel	Availability of skilled personnel	Employee and benefits costs	Employee and benefits costs
4	Availability of skilled personnel	Domestic economic conditions	Employee and benefits costs	Domestic competition	Availability of skilled personnel
5	Domestic competition	Domestic competition	Domestic competition	Domestic economic conditions	Domestic economic conditions
6	Domestic political leadership	Domestic political leadership	Domestic political leadership	Developing new products/services/markets	Domestic political leadership
7	Developing new products/services/markets	Developing new products/services/markets	Global economic conditions	Domestic political leadership	Developing new products/services/markets
8	Stagnant/declining markets	Stagnant/declining markets	Developing new products/services/markets	Changing customer preferences	Changing customer preferences
9	Changing customer preferences	Changing customer preferences	Stagnant/declining markets	Materials/supplies/equipment costs	Stagnant/declining markets
10	Materials/supplies/equipment costs	Staff turnover	Materials/supplies/equipment costs	Staff turnover	Materials/supplies/equipment costs

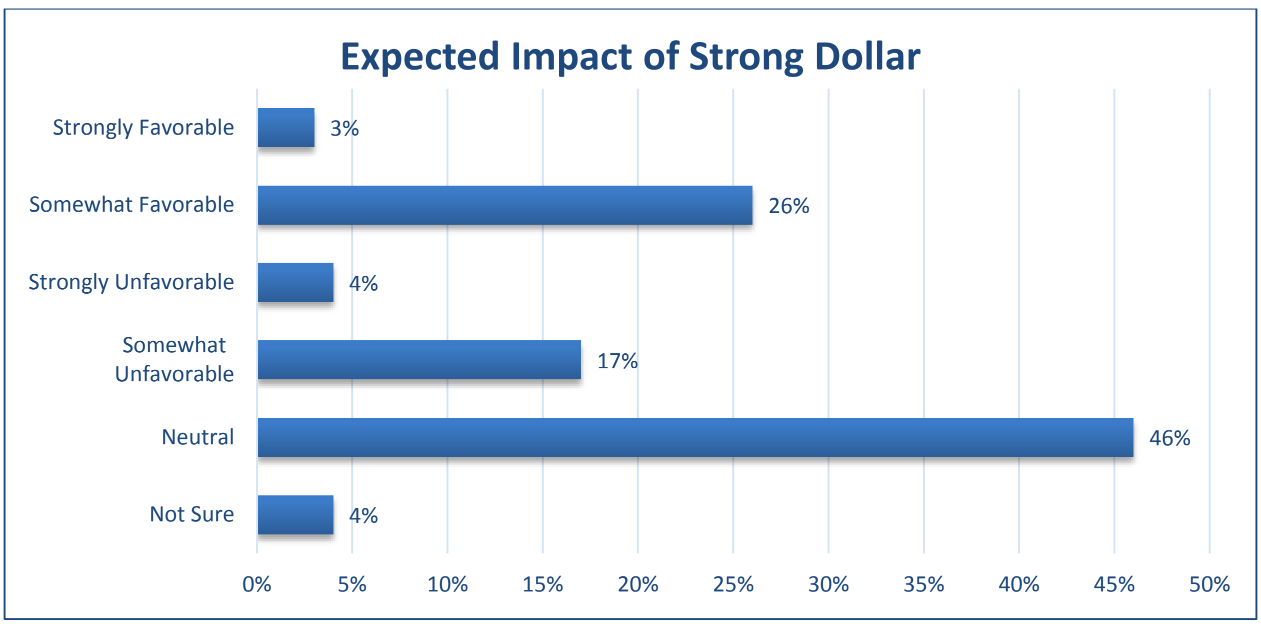
Survey within the Survey

Impact of oil and gas prices has been favorable to a majority of companies, strong dollar expected to be somewhat favorable to many

The impact of the recent decline in oil/energy prices has had a favorable impact on a majority of our respondent's companies, with 8% indicating a strongly favorable impact, and 47% indicating at least a somewhat favorable impact. On the flip-side, 6% of respondents said the impact on their organizations has had a strongly unfavorable impact, and another 6% said the impact has been somewhat unfavorable.

In terms of currency, the impact of fluctuations in the value of foreign currencies over the past year for exactly half of our respondent's organizations has been neutral. For companies that have been impacted, the split leans slightly to the unfavorable impact with 4% indicating the negative impact to be strongly so, and another 16% experiencing a somewhat unfavorable effect. Another 11% indicated a favorable impact.

When asked about the anticipated impact of a strong dollar, a near-majority (46%) expect a neutral impact, 29% expect a favorable impact, and 21% expect an unfavorable impact.



Survey Background

The survey was conducted of AICPA Business & Industry members between February 10, and February 27, 2015 and had 848 qualified respondents. CFOs comprised 49% of the respondents, 22% were Controllers, 12% were CEOs or Presidents, 8% were VPs, 2% were COOs; the remainder were Directors or other executives. Seventy-three percent of respondents came from privately owned entities, 13% from publicly listed companies, 12% from not-for-profits, 1% from government and 1% from other. Eleven percent came from organizations with annual revenues of $1 billion or more, 22% from organizations with $100 million to under $1 billion in annual revenues, 49% from organizations with $10 million to $100 million and 19% from organizations with under $10 million in revenues (numbers may add to more than 100 due to rounding).