AICPA Business & Industry U.S. Economic Outlook Survey 1Q 2016
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 06

The CPA Outlook Index (CPAOI) decreased 6 points in the first quarter of 2016 to 63, substantially on a sharp decline in optimism about the U.S. economy. Declines in all other index components related to organizational optimism and related business activities are a further reflection of this concern about the economy.

Revenue, profit and expansion plans are all showing declines this quarter, and the spending components as well, which have been relatively buoyant over the course of the past year. Employment continues be the softest organizational index component at 59, declining an additional 8 points.

<table>
<thead>
<tr>
<th>Component</th>
<th>1Q15</th>
<th>2Q15</th>
<th>3Q15</th>
<th>4Q15</th>
<th>1Q16</th>
<th>ΔQ to Q</th>
<th>ΔY to Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Economic Optimism</td>
<td>80</td>
<td>68</td>
<td>67</td>
<td>64</td>
<td>47</td>
<td>↓17</td>
<td>↓33</td>
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<tr>
<td>Organization Optimism</td>
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<td>73</td>
<td>73</td>
<td>70</td>
<td>63</td>
<td>↓07</td>
<td>↓13</td>
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<tr>
<td>Expansion Plans</td>
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<td>72</td>
<td>72</td>
<td>70</td>
<td>64</td>
<td>↓06</td>
<td>↓10</td>
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<tr>
<td>Revenue</td>
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<td>75</td>
<td>76</td>
<td>74</td>
<td>68</td>
<td>↓06</td>
<td>↓10</td>
</tr>
<tr>
<td>Profits</td>
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<td>69</td>
<td>71</td>
<td>67</td>
<td>60</td>
<td>↓07</td>
<td>↓12</td>
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<tr>
<td>Employment</td>
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<td>67</td>
<td>66</td>
<td>67</td>
<td>59</td>
<td>↓08</td>
<td>↓09</td>
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<tr>
<td>IT Spending</td>
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<td>77</td>
<td>77</td>
<td>77</td>
<td>73</td>
<td>↓04</td>
<td>↓03</td>
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<tr>
<td>Other Capital Spending</td>
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<td>72</td>
<td>72</td>
<td>72</td>
<td>67</td>
<td>↓05</td>
<td>↓04</td>
</tr>
<tr>
<td>Training &amp; Development</td>
<td>70</td>
<td>71</td>
<td>69</td>
<td>68</td>
<td>67</td>
<td>↓01</td>
<td>↓03</td>
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<tr>
<td>Total CPAOI</td>
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<td>72</td>
<td>71</td>
<td>69</td>
<td>63</td>
<td>↓06</td>
<td>↓11</td>
</tr>
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</table>
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

Optimism about the economy, organization and expansion plans continue to decline

The number of CPA executives who are optimistic about the economy declined to 28% in the first quarter of 2016, falling another 17 points from the 45% level of last quarter. Organizational optimism and expansion plans also both declined in the first quarter.

Only 44% of respondents continue to be optimistic about the prospects for their own organization in the first quarter of 2016, down nine points from the fourth quarter. Both optimism measures are at levels not seen since the second half of 2012 when the ‘fiscal cliff’ debates were front and center. With an additional four point easing in the fourth quarter, only 52% of organizations continue to have expansion plans, also a level not seen since the fourth quarter of 2012.

Outlook for the US Economy, Organizations & Expansion

Concerns about inflation and deflation flipped in the first quarter. While there does not seem to be any significant concern about either, only 14% of respondents are currently concerned about inflation, dropping from 23% at the fourth quarter, 2015. Conversely, 22% are concerned about deflation, double the 11% in the fourth quarter.

Labor costs continue as the most pressing, now the top concern for 44% of respondents. Raw material and energy cost concerns both declined, and concern about interest rates eased another 3 points to 19%.
Key Performance Indicators

*Outlooks for revenue and profits both decline further*

Expectations for increased revenues eased further from 2.9% in the fourth quarter to 1.7% in the first quarter of 2016, down from the high of 4.7% we saw in the fourth quarter of 2014. Expectations for profits for the coming year also dropped to only 0.7%, down from 2.0% in the fourth quarter of 2015.

Expected “other input prices” eased six tenths from 2.1% in the fourth quarter to 1.5% in the first quarter. However, the expected ability to increase “prices charged” also eased by nearly half, from an expected increase of 1.5% in the fourth quarter to only 0.8% in the first quarter.

Expectations for healthcare cost increases continue to be higher than other costs, but this measure remained constant after declining to 5.4% in the fourth quarter, which is the lowest expected increase dating back to the third quarter of 2009.

IT continues to be the strongest category of planned spending over the upcoming twelve months, but eased another full half a point from the fourth quarter 2015 projection of 2.8% to only a 2.3% increase. Other capital spending plans also declined almost a full point from a projected 2.4% increase in the fourth quarter of 2015 to only a 1.5% increase going forward from the first quarter 2016. Anticipated spending for training also eased from 1.4% in the fourth quarter to a first quarter projection of only a 1.1% rate.
Hiring Plans

Higher number of companies report excess employees, fewer with plans to hire

Slightly more than half of all companies (53%) continue to say they have the right number of employees which is consistent with the fourth quarter. However, the number of companies that say they have too many employees increased another three points to 13% in the first quarter which is the highest level since the first quarter of 2010 when 15% said they had an excess.

Less than one-third (31%) of companies say they have too few employees. Of these, the percentage of companies who have plans to hire declined 3% to only 15% in the first quarter; those reluctant to hire eased a point from 17% in the fourth quarter to 16%.

Staffing Relative to Needs
Industry, Region and Business Size Outlook

Optimism recovers somewhat for retail and other core sectors; expansion plans soften for most

Retail trade optimism recovered to 39% in the first quarter after falling off sharply from 85% in the second quarter and 65% in the third quarter, to only 28% in the fourth quarter of 2015. Retail hiring also improved to a projected rate of 1.2%, up from only 0.7% in the fourth quarter of 2015.

Manufacturing regained some lost ground, improving from 41% optimistic in the fourth quarter to 48% in the first quarter. However, manufacturing hiring continues to be soft, improving only slightly from a projection of 0.9% in the fourth quarter to 1.1% for the coming twelve months.

Construction optimism also rebounded in the first quarter to 59% after falling from 64% in the third quarter and to 51% in the fourth quarter of 2015. However, the expected increase in construction headcount fell back to only 1.1% in the first quarter, after improving in the fourth quarter to 2.5%. Real Estate optimism also improved in the first quarter to 52% after declining sharply in the fourth quarter.

Technology optimism remained essentially flat, improving only a point from the fourth quarter to 53% optimistic in the first quarter. Technology hiring also softened from 2.0% to 1.4%.

The finance and insurance sector, on the other hand, continued its decline, falling from 49% in the fourth quarter of 2015 to only 41% optimistic in the first quarter of 2016.

Expected Employment Change by Industry

In terms of regional perspective, the West regained its place as the most optimistic region at 55%. Each of the other regions dropped 10% in optimism – the Northeast from 58% to 48%, the Midwest from 55% to 45%, and the South from 48% to 38%.
Industry, Region and Business Size Outlook (cont’d)

Expansion plans by business size are mixed:

- After showing some strength in the third quarter of 2015, the percentage of companies with revenues < $10 million having expansion plans fell further from 52% in the fourth quarter to only 44% in the first quarter.

- Expansion plans for companies in the $10-$100 million range improved slightly from 57% to 59%.

- Those with expansion plans in the $100 million to <$1 billion range also declined in the first quarter; only 50% now say they have plans to expand, down from 57% in the fourth quarter.

- Similarly, only 49% of companies with revenues > $1 billion are saying they have plans to expand, after recovering a few points in the fourth quarter to 59%.

Perhaps most notable is that 21% of companies in the $100 million to <$1 billion category, and 15% of those with revenues > $1 billion say that they have an excess number of employees.

Expansion Plans by Business Size
Top Challenges

Domestic economic conditions take over as the top challenge

Domestic economic conditions now ranks as the top challenge that organizations are facing, followed by regulatory requirements which had topped the list for several quarters.

Stagnant/declining markets moved into the third slot from #5, followed by domestic competition which slipped one notch to #4. Availability of skilled personnel continues to be a concern, but also eased another slot this quarter from #4 to #5, followed by employee and benefits costs which maintained its #6 ranking.

Domestic political leadership bounced back from #10 to #7, and developing new products/services/markets also recovered from #9 to #8. Staff turnover, which has not been a major challenge for some time, makes an appearance this quarter at the #9 slot.

Financing (access, cost of capital) returned to the “top ten” last quarter, but eased from the #8 slot to #10 in the first quarter of 2016

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<td>Employee and benefits costs</td>
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<td>Availability of skilled personnel</td>
<td>Domestic competition</td>
<td>Stagnant/declining markets</td>
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<td>Availability of skilled personnel</td>
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<td>6 Domestic political leadership</td>
<td>Developing new products/services/markets</td>
<td>Stagnant/declining markets</td>
<td>Employee and benefits costs</td>
<td>Employee and benefits costs</td>
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<tr>
<td>7 Developing new products/services/markets</td>
<td>Domestic political leadership</td>
<td>Developing new products/services/markets</td>
<td>Global economic conditions</td>
<td>Domestic political leadership</td>
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<td>8 Changing customer preferences</td>
<td>Materials/supplies/equipment costs</td>
<td>Changing customer preferences</td>
<td>Financing (access/cost of capital)</td>
<td>Developing new products/services/markets</td>
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<tr>
<td>9 Stagnant/declining markets</td>
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<td>Domestic political leadership</td>
<td>Developing new products/services/markets</td>
<td>Staff Turnover</td>
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<td>Global economic conditions</td>
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Survey Background
The survey was conducted of AICPA Business & Industry members between February 9-14, 2016 and had 540 qualified respondents.

CFOs comprised 46% of the respondents, 22% were Controllers, 12% were CEOs or Presidents, 6% were VPs, 2% were COOs; the remainder were Directors or other executives.

Seventy-one percent of respondents came from privately owned entities, 14% from publicly listed companies, and 13% from not-for-profits.

Ten 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, 47% from organizations with $10 million to $100 million and 21% from organizations with under $10 million in revenues (numbers may add to more than 100 due to rounding).