



AICPA

Business and Industry Economic Outlook Survey

Detailed Survey Results — 1Q 2016

Survey Background

- **Conducted between February 9-24, 2016**
- **Quarterly Survey**
- **CPA decision makers (primarily CFOs, CEOs and Controllers)**
- **AICPA members in Business & Industry only**
- **540 qualified responses**

Survey Highlights

- **CPA Outlook Index declines eight points; significant concerns about economy impact all business indicators**
 - Overall index decreased from 69 to 63
 - US economy optimism index component declined seventeen points from 64 to 47; only 28% of respondents express optimism, while 34% are now pessimistic
 - Fortunately organization optimism index declined only eight points to 62 and expansion plan index declined six points to 64
- **Revenue, profit and spending indicators decrease, but remain positive**
 - Revenue index decreases six points to 68 and profits index decreases 7 points to 60
 - Hiring component continues to be soft at 59, easing another 8 points from Q4
 - Spending continues to be relatively strong, although easing along with other measures
- **Optimism recovers in retail and other core sectors; down in finance and insurance**
 - Retail trade optimism recovered to 39% in Q1 after falling off sharply from 65% to only 28% in Q4
 - Manufacturing, construction, and real estate also recovered some ground lost in Q1, to 48%, 59%, and 52% optimistic, respectively
 - Finance and Insurance on the other hand continued its decline, falling to only 41% optimistic in Q1, 2016, from 49% in Q4

CPA Outlook Index (CPAOI)

CPA Outlook Index

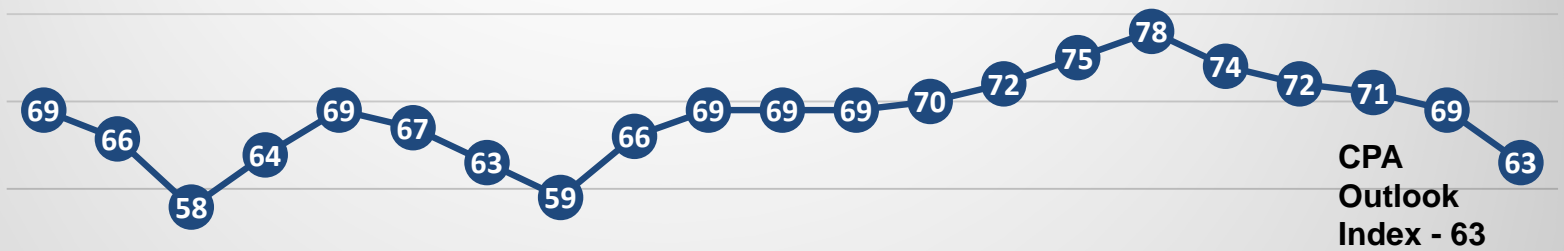
The CPA Outlook Index is a robust measure of sentiment about the U.S. economy that is supported by the unique insight and knowledge that CEOs, CFOs, Controllers, and other CPA executives have about the prospects for their own organizations, their expectations for revenues and profits, and their plans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

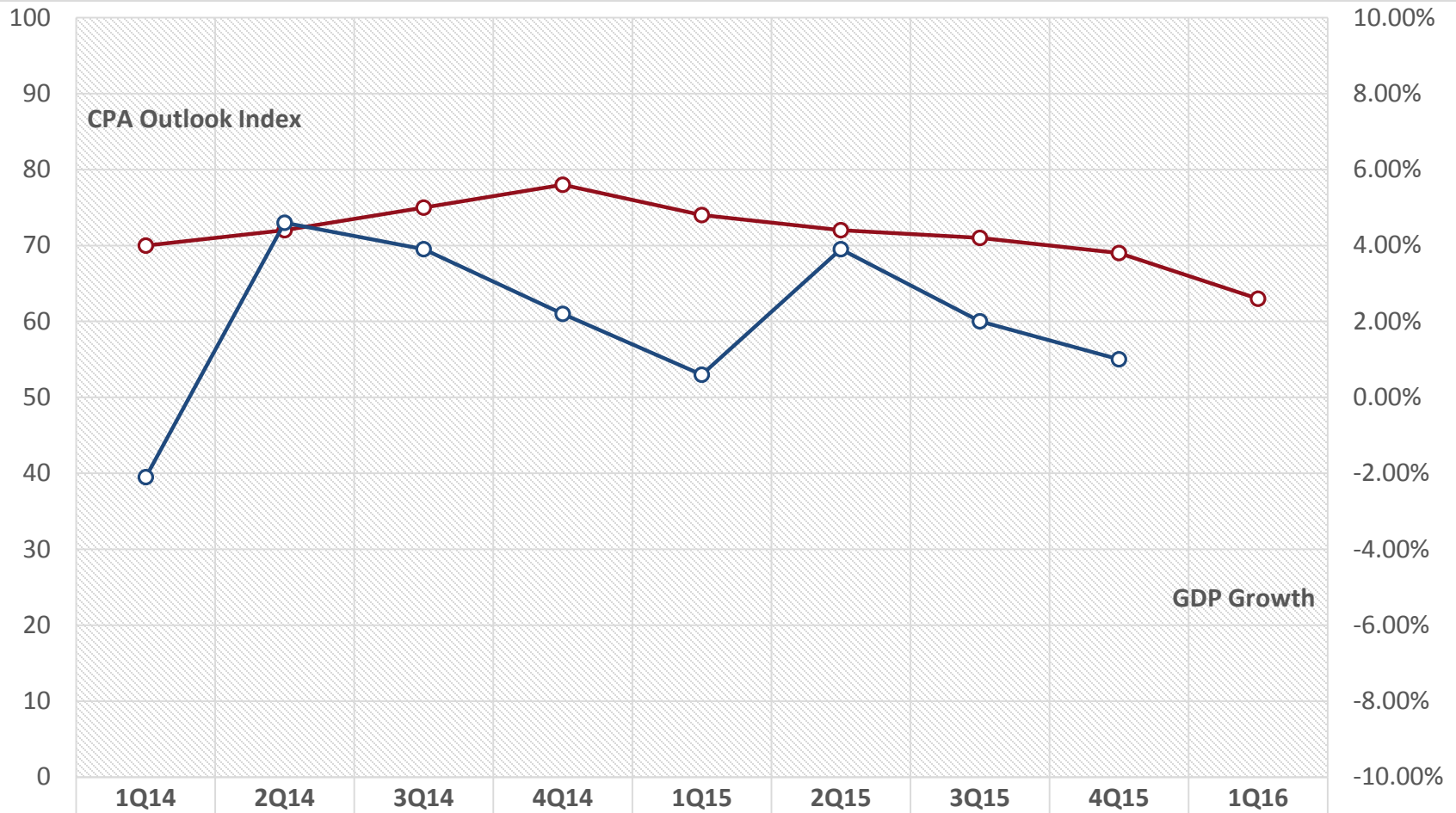


	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
CPA Outlook Index	69	66	58	64	69	67	63	59	66	69	69	69	70	72	75	78	74	72	71	69	63

CPA Outlook Index Component Indicators

Component	1Q15	2Q15	3Q15	4Q15	1Q16	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	80	68	67	64	47	↓17	↓33
Organization Optimism	76	73	73	70	63	↓07	↓13
Expansion Plans	74	72	72	70	64	↓06	↓10
Revenue	78	75	76	74	68	↓06	↓10
Profits	72	69	71	67	60	↓07	↓12
Employment	68	67	66	67	59	↓08	↓09
IT Spending	76	77	77	77	73	↓04	↓03
Other Capital Spending	71	72	72	72	67	↓05	↓04
Training & Development	70	71	69	68	67	↓01	↓03
Total CPAOI	74	72	71	69	63	↓06	↓11

CPA Outlook Index (CPAOI) vs. GDP



—○— CPA Outlook Index	70	72	75	78	74	72	71	69	63
—○— Change in GDP	-2.10%	4.60%	3.90%	2.20%	0.60%	3.90%	2.0%	1.0%	

U.S. & Organization Outlook

Outlook for the U.S. and Organizations

■ Optimism for the U.S. Economy plummets

- The percentage of executives optimistic about the US Economy declined from 45% in Q4 to only 28% in Q1, the lowest level since a decline in the second half of 2012; at 34% pessimism is also higher than any quarter since that time
- Global turbulence and China, low oil and commodity prices, along with domestic policies and politics were cited as the primary reasons for those with pessimistic views

■ Organizational optimism eases, but not as dramatically

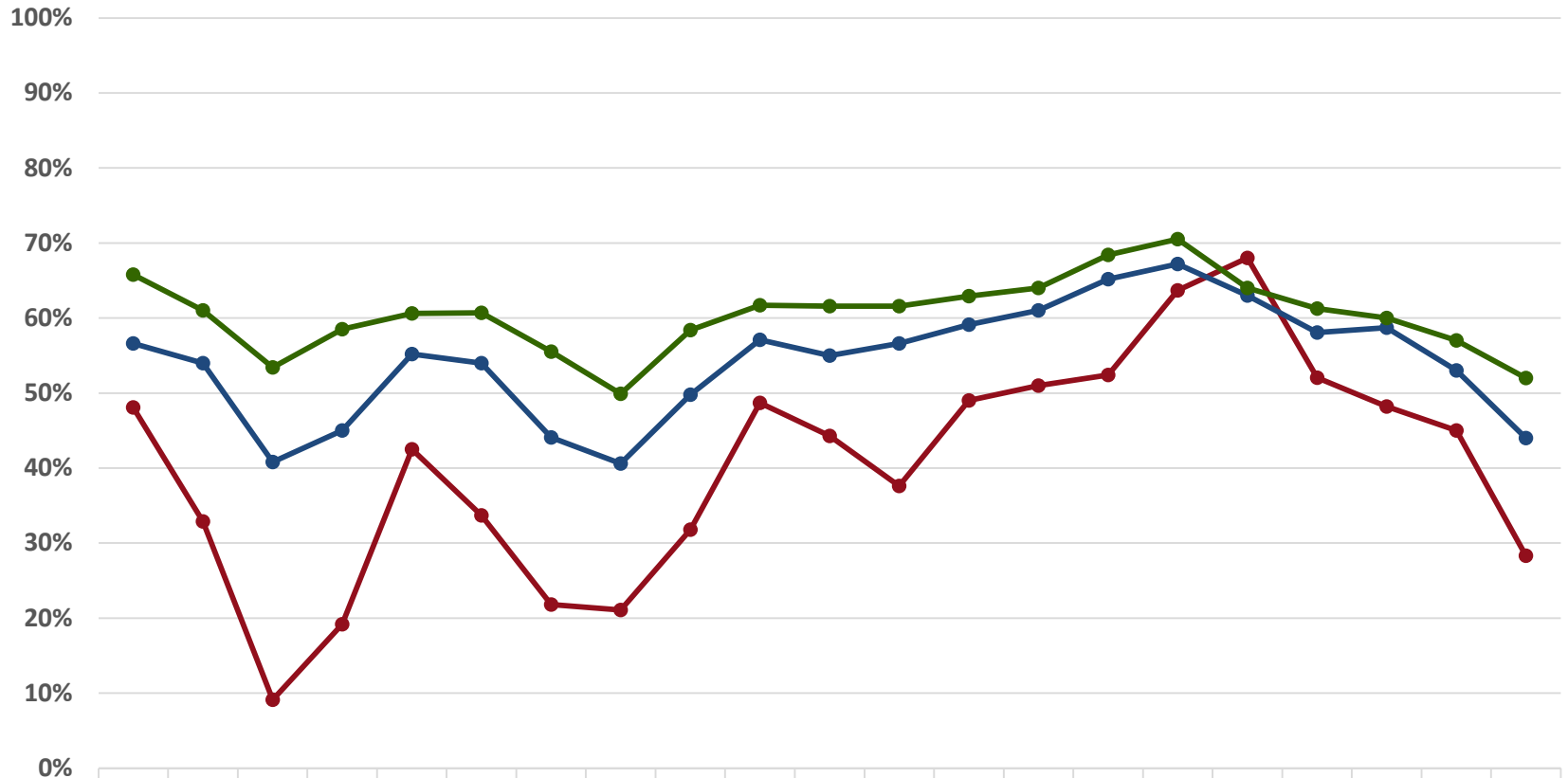
- Optimism about own company prospects fell ten points from 53% to 44%, dropping below 50% for the first time since a dip in the second half of 2012
- The percentage of companies expecting their business to expand also fell off to 52%, also the lowest point since 4Q 2012
- The percentage of companies expecting their businesses to contract also increased in Q1 to 25%, the highest level since Q3 2009 when 30% of companies anticipated a decline in their business

■ Concern about deflation vs. inflation flips

- Only 14% are concerned about inflation, dropping from 23% at Q4, 2015
- Conversely, now 22% are concerned about deflation, double the 11% in Q4, 2015
- Labor costs continued as the most pressing, now the top concern for 44% of respondents, as raw material and energy cost concerns both decline
- Concern about interest rates eased another 3 points to 19%

Optimism & Expansion

US, Organization, Expansion

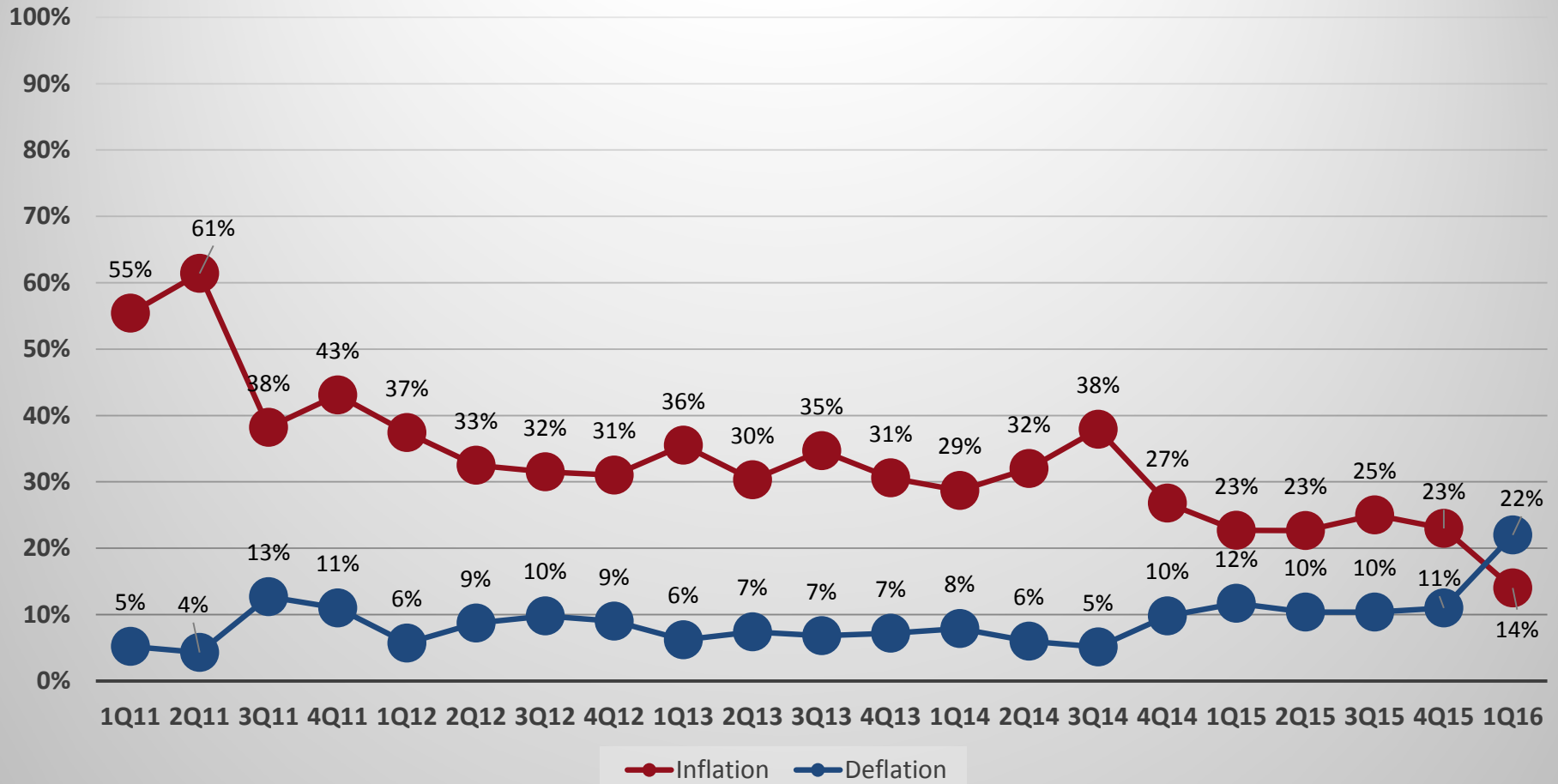


	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
—●— US	48%	33%	9%	19%	43%	34%	22%	21%	32%	49%	44%	38%	49%	51%	52%	64%	68%	52%	48%	45%	28%
—●— Organization	57%	54%	41%	45%	55%	54%	44%	41%	50%	57%	55%	57%	59%	61%	65%	67%	63%	58%	59%	53%	44%
—●— Expansion	66%	61%	53%	59%	61%	61%	56%	50%	58%	62%	62%	62%	63%	64%	68%	71%	64%	61%	60%	57%	52%

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

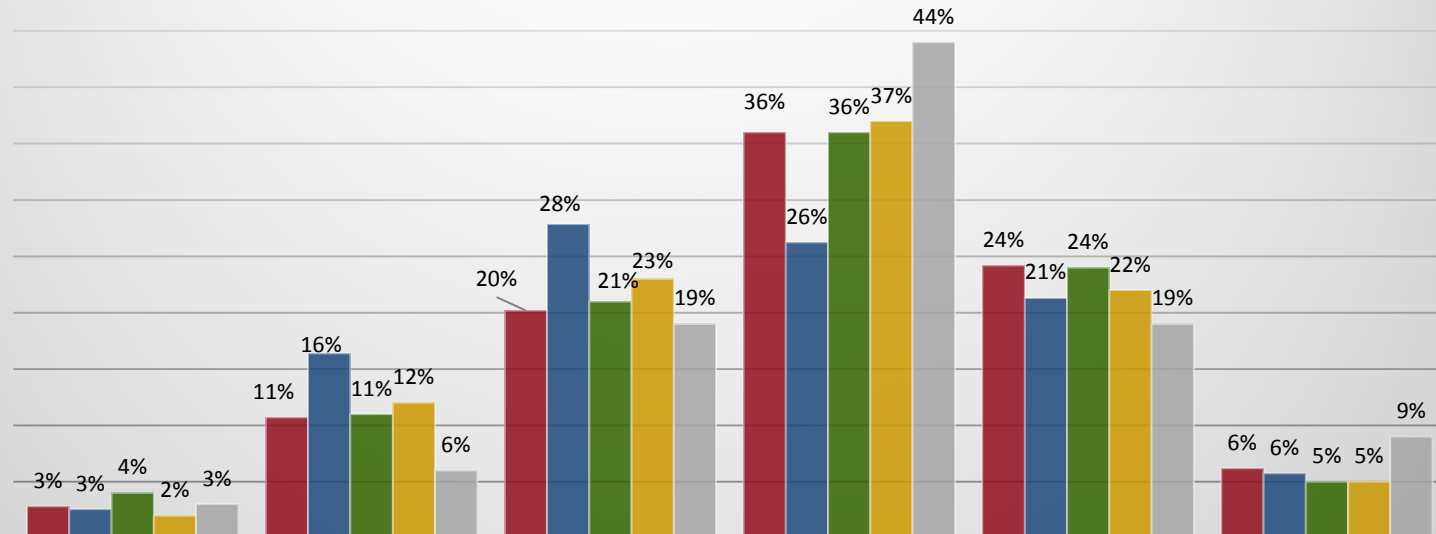
For your business, over the next 6 months, are you more concerned about the possibility of ...?

Inflation or Deflation?



Inflationary Risks and Costs

Inflationary Factor Representing the Most Significant Risk to your Business



	Food costs	Energy costs	Raw material costs	Labor costs	Interest rates	Other
■ 1Q15	3%	11%	20%	36%	24%	6%
■ 2Q15	3%	16%	28%	26%	21%	6%
■ 3Q15	4%	11%	21%	36%	24%	5%
■ 4Q15	2%	12%	23%	37%	22%	5%
■ 1Q16	3%	6%	19%	44%	19%	9%

Key Performance Indicators

Key Performance Indicators

■ Outlooks for revenue and profits both fall off

- Expected revenue increase declines from 2.9% to 1.7%; expected profit increase also declines from 2.0% to 0.7%

■ Headcount plans and salary and benefit costs ease slightly; healthcare costs remained constant

- Headcounts are now expected to increase by only 0.5% over the next twelve months, easing another half a point this quarter from the 1.0% projected in Q4
- Expected increases in salary and benefit costs also eased four tenths to 1.4% in Q1
- Anticipated healthcare cost remained constant at 5.4%
- Expected “other input prices” eased six tenths from 2.1% in Q4 to 1.5% in Q1; however, the expected ability to increase “prices charged” also eased by nearly half, from an expected increase of 1.5% in Q4 to only 0.8%

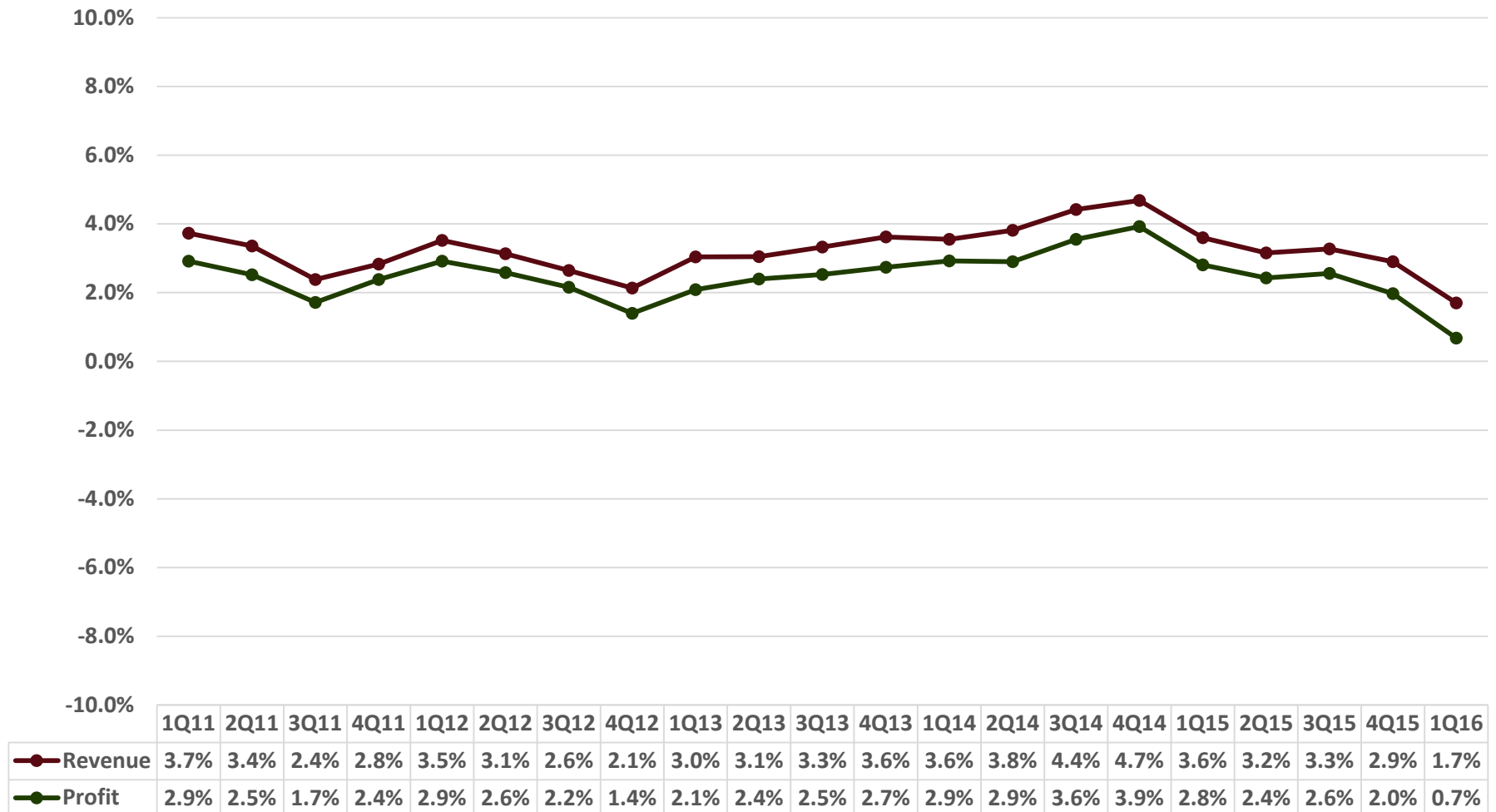
■ Key spending plans ease slightly

- Increased spending for IT continues to be the strongest category, but declined slightly from 2.8% in Q4 to 2.3% in Q1
- Other capital spending plans also eased from 2.4% in Q4 to 1.5% in Q1
- Expected increase in training spending declined from 1.4% in Q4 to 1.1% in Q1
- Plans for marketing spending eased two tenths to 1.4%; R&D spending also gave up three tenths, falling to 0.9%

Key Performance Indicators

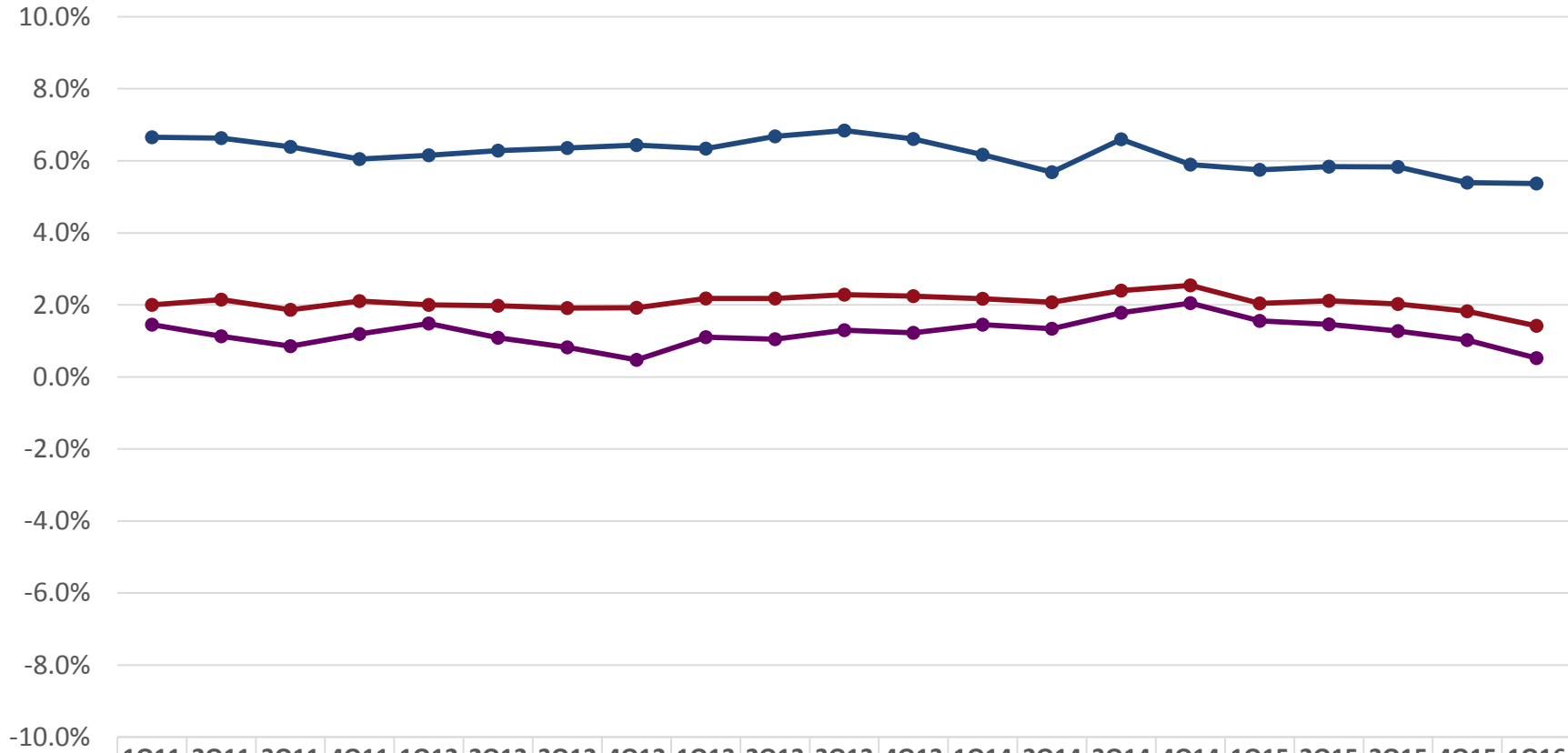
Expected Growth in Revenue and Profits

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 ...

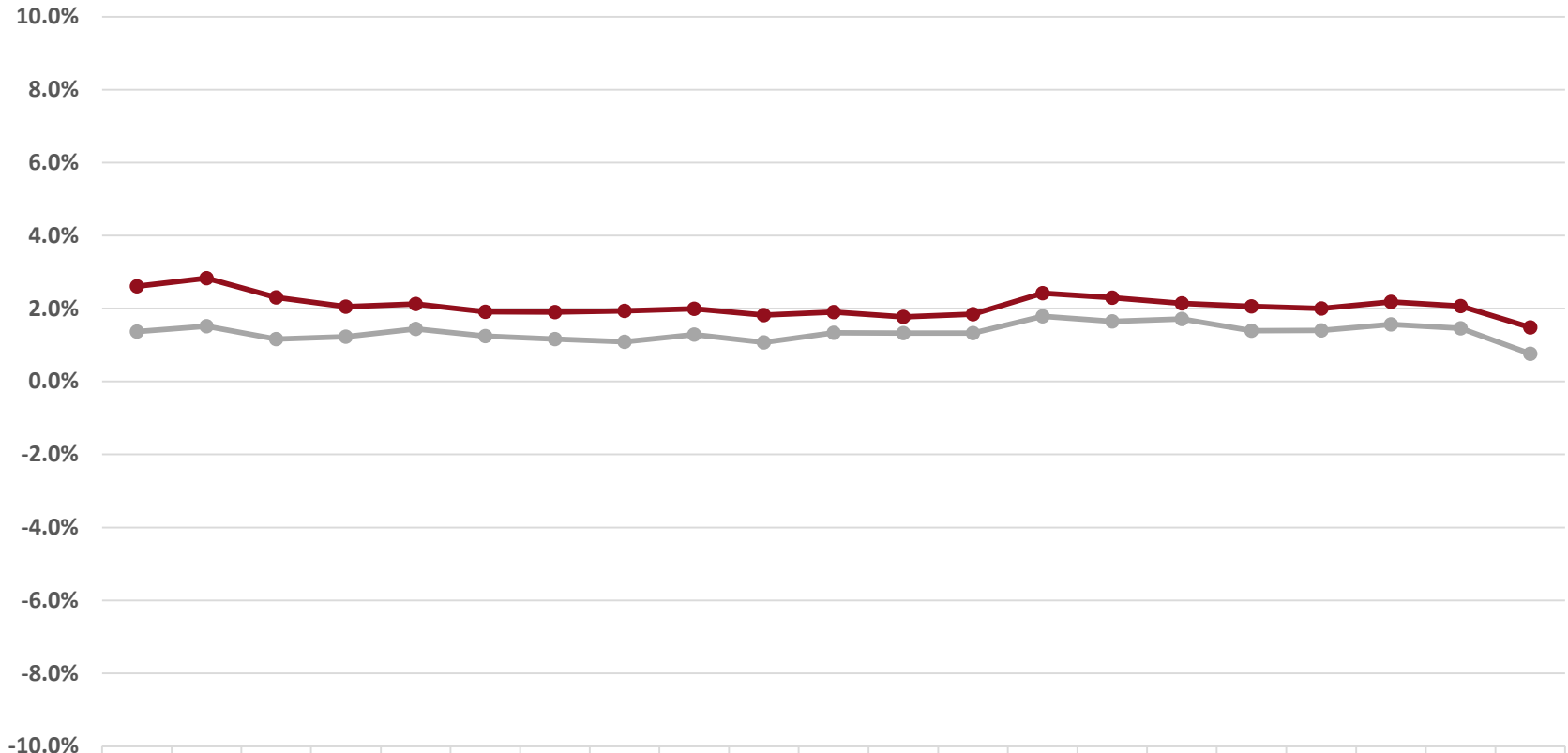


	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
—●— Employees	1.5%	1.1%	0.9%	1.2%	1.5%	1.1%	0.8%	0.5%	1.1%	1.0%	1.3%	1.2%	1.5%	1.3%	1.8%	2.1%	1.6%	1.5%	1.3%	1.0%	0.5%
—●— Salary & Benefits	2.0%	2.2%	1.9%	2.1%	2.0%	2.0%	1.9%	1.9%	2.2%	2.2%	2.3%	2.2%	2.2%	2.1%	2.4%	2.5%	2.0%	2.1%	2.0%	1.8%	1.4%
—●— Healthcare	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%	5.8%	5.8%	5.8%	5.4%	5.4%

Pricing & Other Costs

Average Change Expected

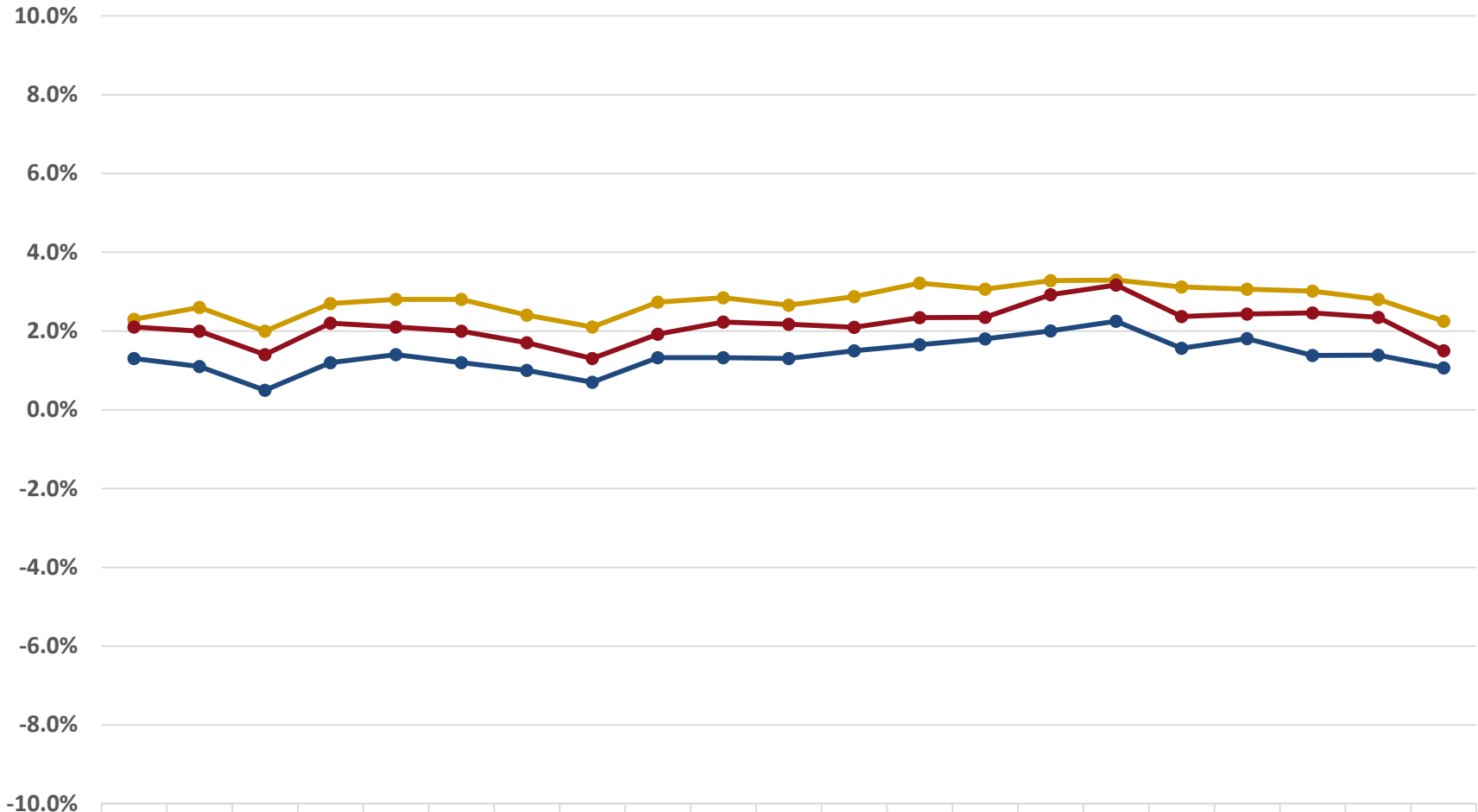
Thinking about the coming 12 months, please comment on the probable change for your organization ...



	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
— Prices Charged	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%	1.4%	1.4%	1.6%	1.5%	0.8%
— Input Prices	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%	2.1%	2.0%	2.2%	2.1%	1.5%

Spending Plans IT, Other Capital & Training

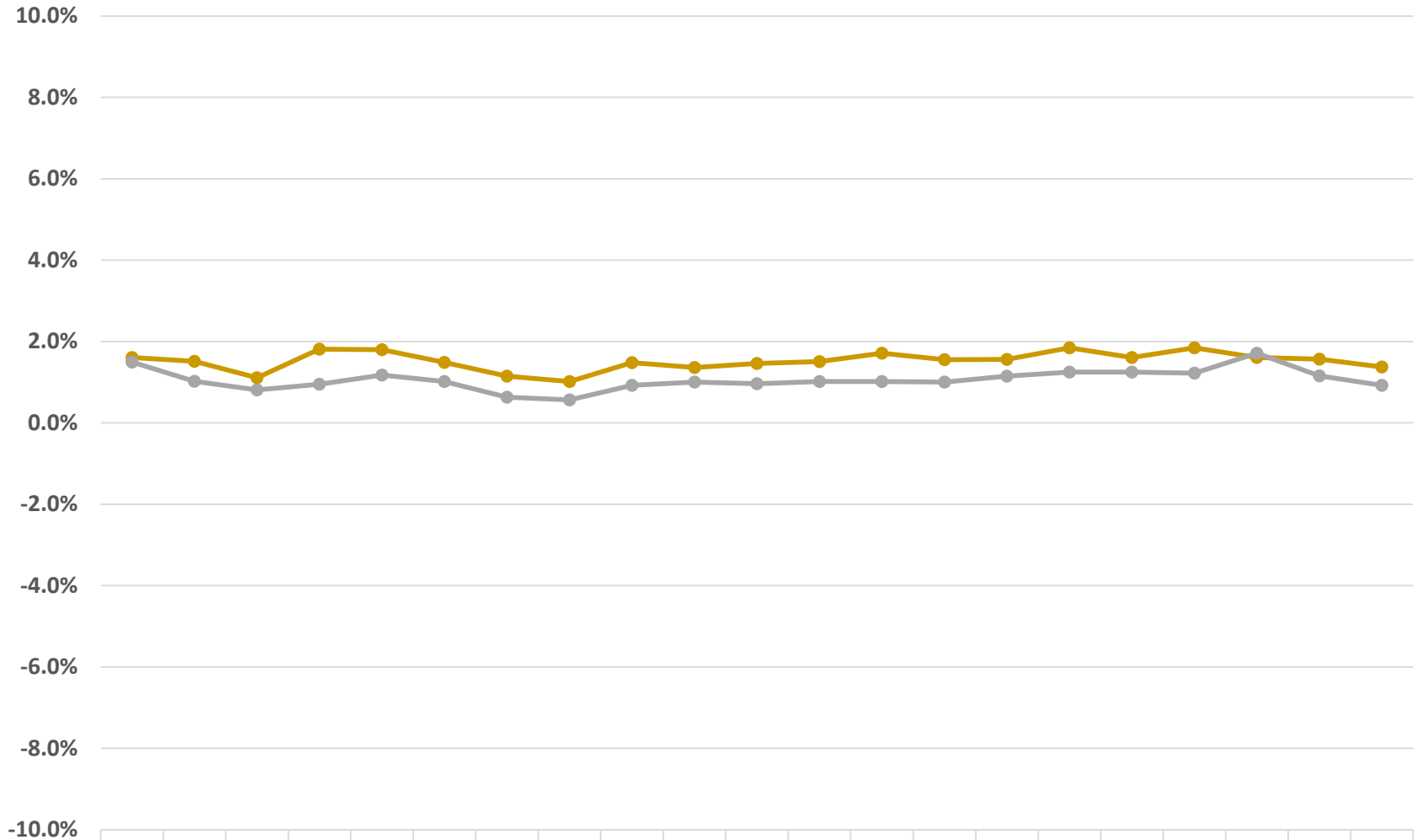
Thinking about the coming 12 months, please comment on the probable change for your organization for ...



IT	2.3%	2.6%	2.0%	2.7%	2.8%	2.8%	2.4%	2.1%	2.7%	2.8%	2.7%	2.9%	3.2%	3.1%	3.3%	3.3%	3.1%	3.1%	3.0%	2.8%	2.3%
Other Capital	2.1%	2.0%	1.4%	2.2%	2.1%	2.0%	1.7%	1.3%	1.9%	2.2%	2.2%	2.1%	2.3%	2.4%	2.9%	3.2%	2.4%	2.4%	2.5%	2.4%	1.5%
Training	1.3%	1.1%	0.5%	1.2%	1.4%	1.2%	1.0%	0.7%	1.3%	1.3%	1.3%	1.5%	1.7%	1.8%	2.0%	2.2%	1.6%	1.8%	1.4%	1.4%	1.1%

Spending Plans Marketing & R&D

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



Marketing	1.6%	1.5%	1.1%	1.8%	1.8%	1.5%	1.1%	1.0%	1.5%	1.4%	1.5%	1.5%	1.7%	1.6%	1.6%	1.8%	1.6%	1.8%	1.6%	1.6%	1.4%
R&D	1.5%	1.0%	0.8%	0.9%	1.2%	1.0%	0.6%	0.6%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.2%	1.3%	1.3%	1.2%	1.7%	1.2%	0.9%

Hiring Plans

Hiring Plans

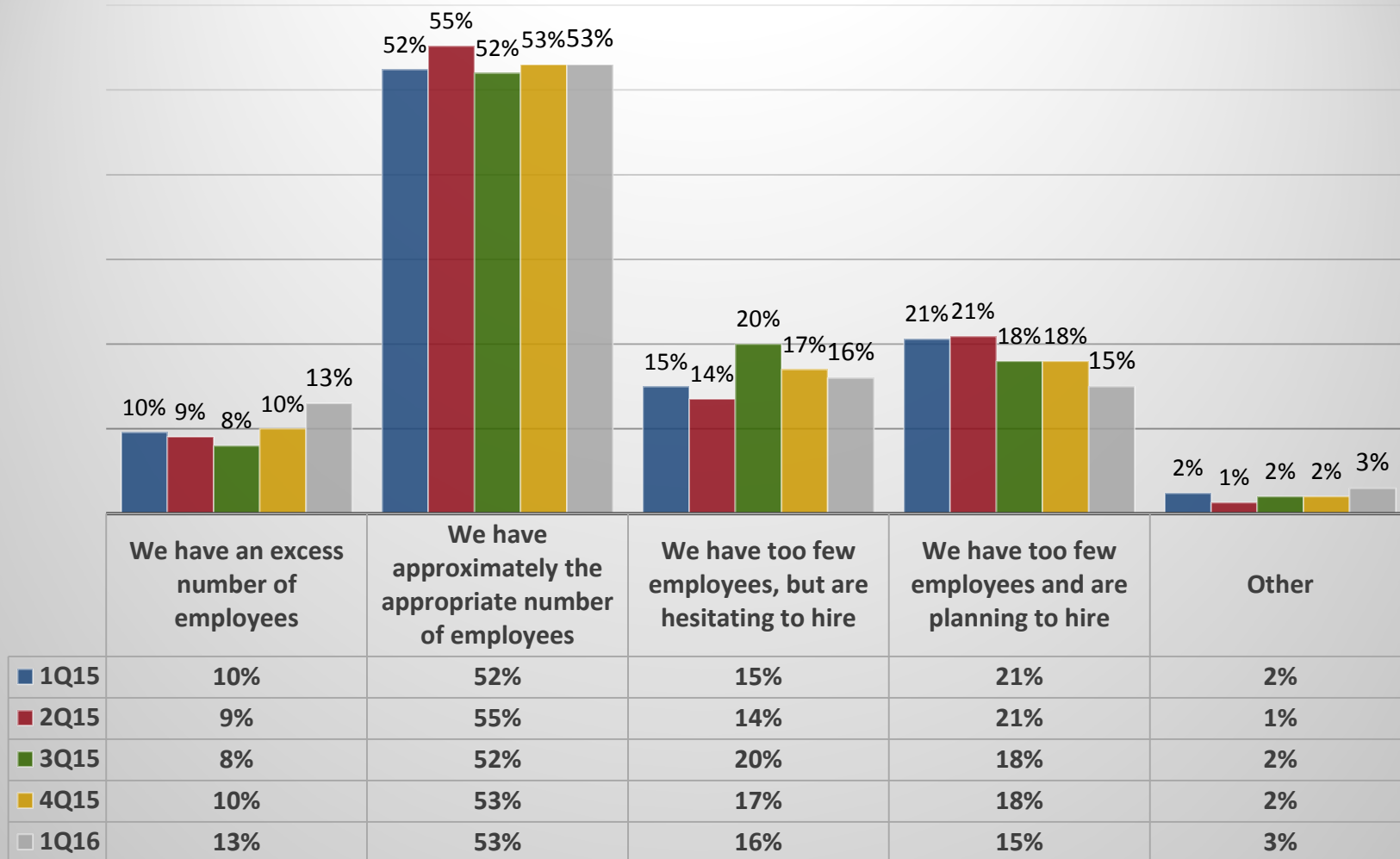
■ Expectations for business decline also impact hiring

While 53% of all companies say they have the appropriate number of employees, which is consistent with Q4, 2015

- The number of companies now saying they have an excess of employees increased another three points from 10% to 13%
- Less than a third (31%) now have too few employees;
 - The percentage of companies with too few employees who are reluctant to hire eased from 17% in Q4, 2015 to 16% in Q1, 2016
 - However, those with too few employees that are planning to hire declined from 18% to 15%

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)?



Top Challenges

Top Challenges Facing Organizations

- 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
- Availability of skilled personnel continues to be a concern, but did ease 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
- 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 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 Q1

Top Challenges for Organizations

Please indicate the top three challenges for your organization

	1Q 15	2Q 15	3Q 15	4Q 15	1Q16
1	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes	Domestic economic conditions
2	Domestic competition	Employee and benefits costs	Employee and benefits costs	Domestic economic conditions	Regulatory requirements/changes
3	Employee and benefits costs	Domestic economic conditions	Availability of skilled personnel	Domestic competition	Stagnant/declining markets
4	Availability of skilled personnel	Availability of skilled personnel	Domestic economic conditions	Availability of skilled personnel	Domestic competition
5	Domestic economic conditions	Domestic competition	Domestic competition	Stagnant/declining markets	Availability of skilled personnel
6	Domestic political leadership	Developing new products/services/markets	Stagnant/declining markets	Employee and benefits costs	Employee and benefits costs
7	Developing new products/services/markets	Domestic political leadership	Developing new products/services/markets	Global economic conditions	Domestic political leadership
8	Changing customer preferences	Materials/supplies/equipment costs	Changing customer preferences	Financing (access/cost of capital)	Developing new products/services/markets
9	Stagnant/declining markets	Financing (access/cost of capital)	Domestic political leadership	Developing new products/services/markets	Staff Turnover
10	Materials/supplies/equipment costs	Changing customer preferences	Global economic conditions	Domestic political leadership	Financing (access/cost of capital)

Outlook by *Industry, Region and Business Size*

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

- **Optimism recovers somewhat in retail and other core sectors; drops in finance and natural resource sectors**
 - **Retail trade** optimism recovered to 39% in Q1 after falling off sharply from 65% to only 28% in Q4, and topping the charts at 85% optimistic in Q2, 2015. Retail hiring also improved to a projected rate of 1.2%, up from only 0.7% in Q4, 2015
 - **Wholesale trade** optimism also recovered somewhat from 23% in Q4 to 42% in Q1
 - **Manufacturing** regained some lost ground, improving from 41% optimistic in Q4 to 48% in Q1; however, manufacturing hiring projections continue to be soft, improving only slightly from 0.9% in Q4 to 1.1% for the coming twelve months
 - **Technology** optimism remained essentially flat, improving only a point from Q4 to 53% optimistic Q1; technology hiring also softened from 2.0% to 1.4%
 - **Construction** optimism also rebounded in Q1 to 59% after falling from 64% in Q3, to 51% in Q4, 2015. However, the expected increase in construction headcount fell back to only 1.1% in Q1, after improving in Q4 to 2.5%
 - **Real Estate** optimism also improved in Q1 to 52% after declining sharply in Q4
 - **Finance and Insurance** on the other hand continued its decline, falling from 49% in Q4, 2015 to 41% optimistic in Q1, 2016

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

■ Other Sectors

- **Healthcare-other** rebounded from 44% in Q4 to 67% in Q1
- **Healthcare providers** also rebounded in Q1 to 52% optimistic after falling sharply to only 38% optimistic in Q4

■ Optimism stable in West, declines across other regions

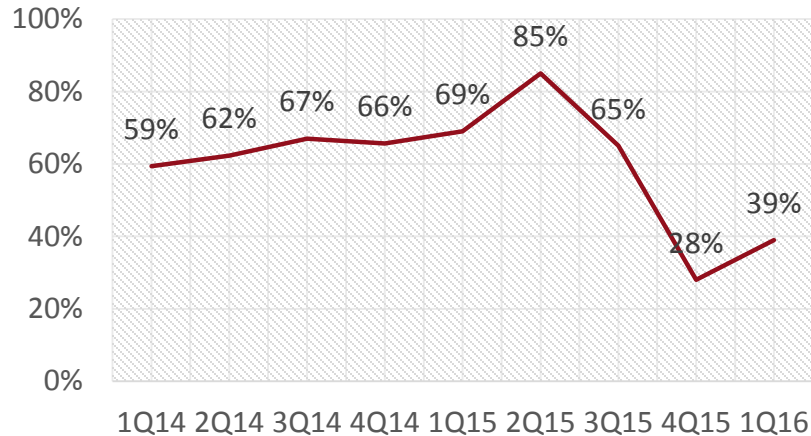
- West regains its place as most optimistic region, maintaining at 55%
- Each of other regions drop 10%, Northeast from 58% to 48%, Midwest from 55% to 45%, and South from 48% to 38%

■ Expansion plans fall for all but the \$10 to < \$100 million companies

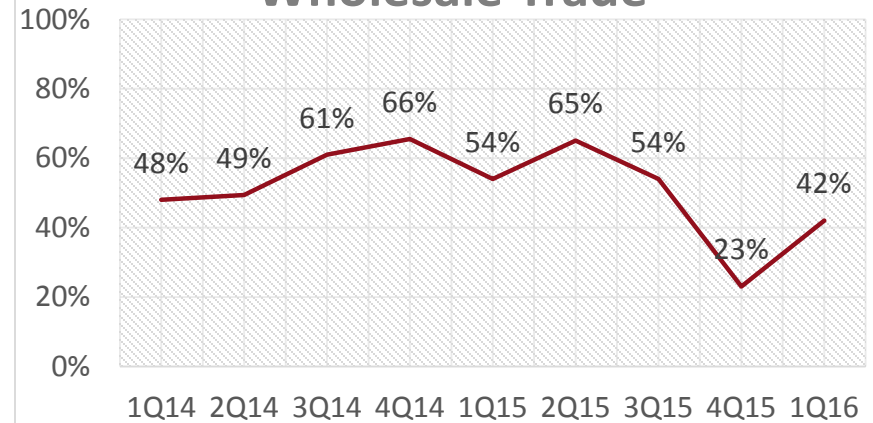
- The number of companies with revenues < \$10 million having expansion plans declined from 52% in Q4 to 44% in Q1
- The \$10-\$100 million range of companies improved from 57% to 59%
- The \$100 billion to \$1 billion range of companies eased from 57% in Q4 to 50% and the percentage of companies with revenues > \$1 billion having expansion plans fell off 10 points to only 49%
- This is the first time since before 2010 when expansion plans were first broken out by size that the expansion plans have fallen to 50% or lower for either segment of larger companies

Organization Optimism by Industry

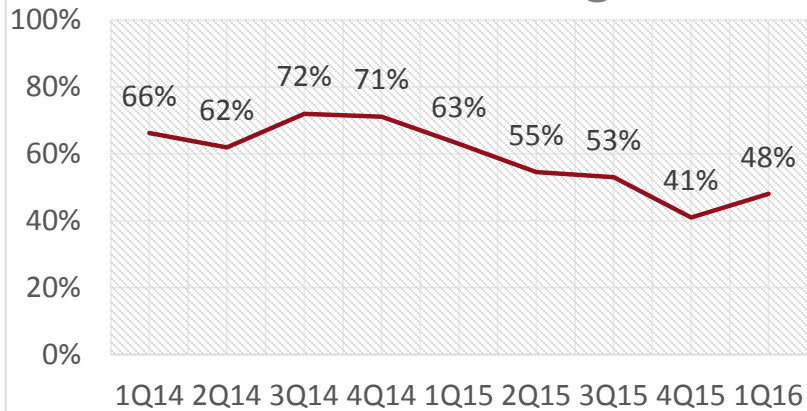
Retail Trade



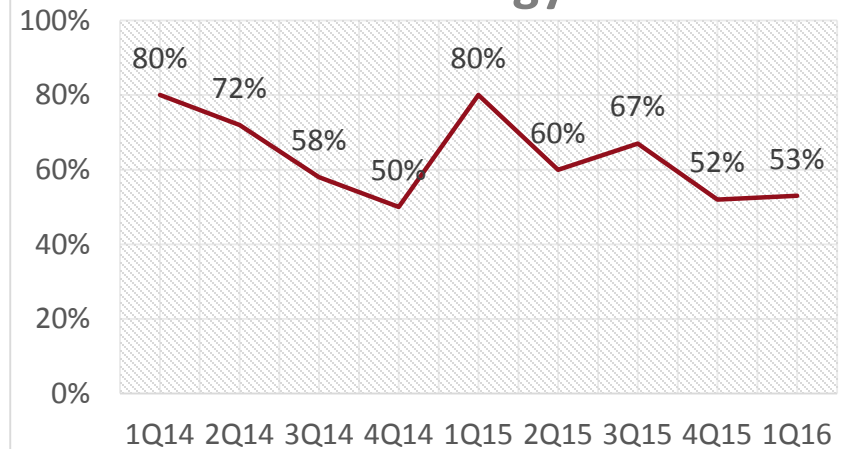
Wholesale Trade



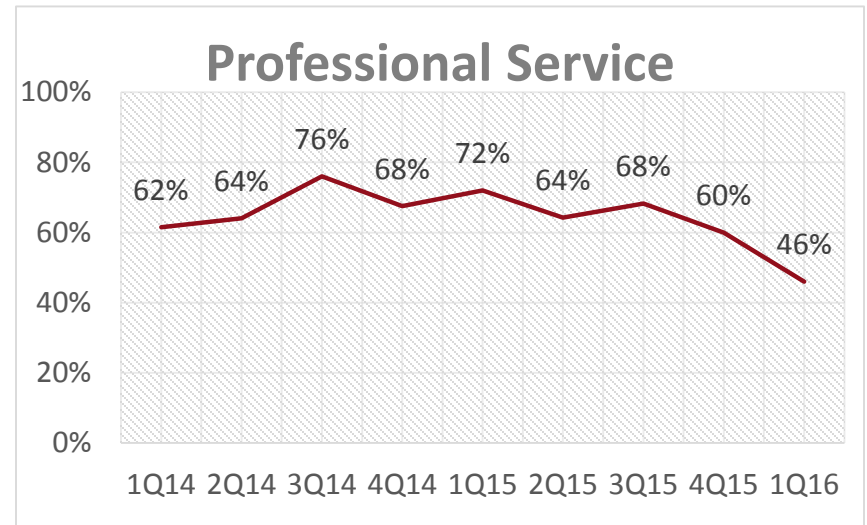
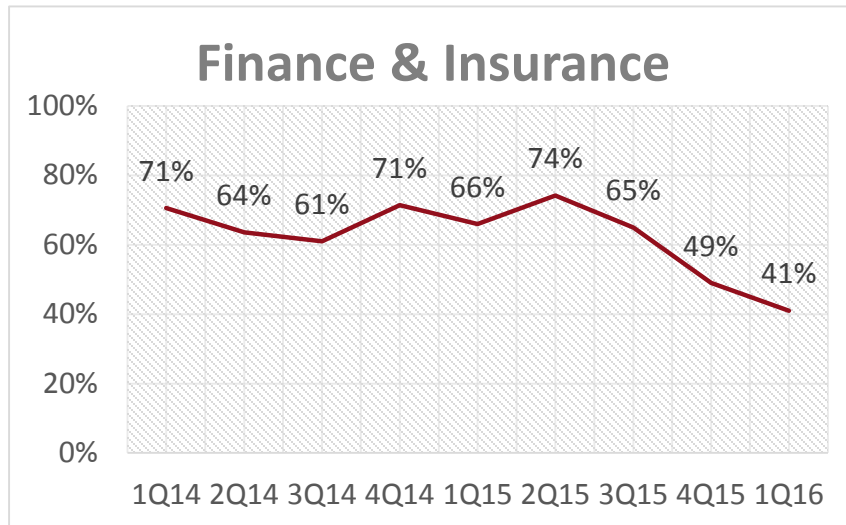
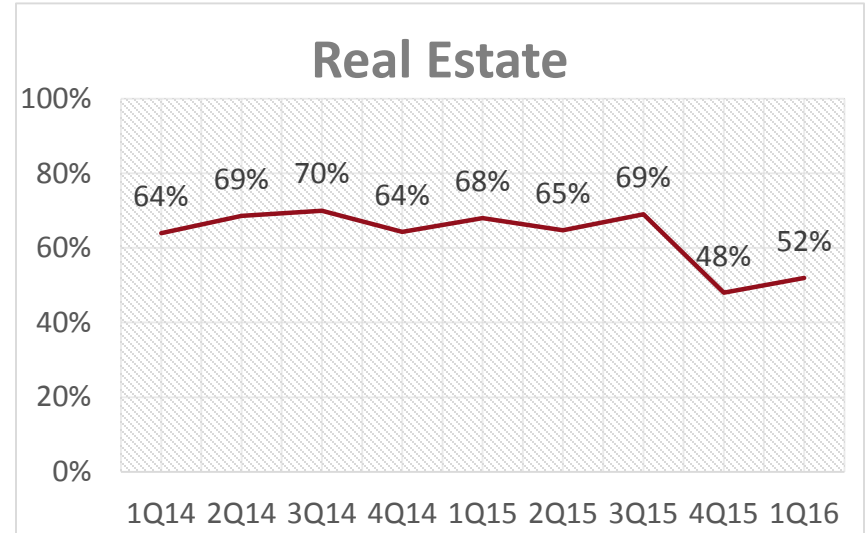
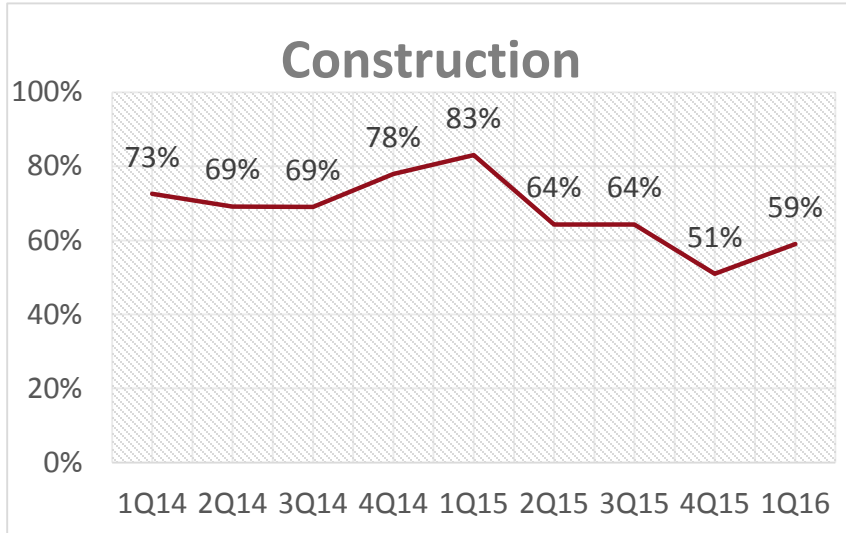
Manufacturing



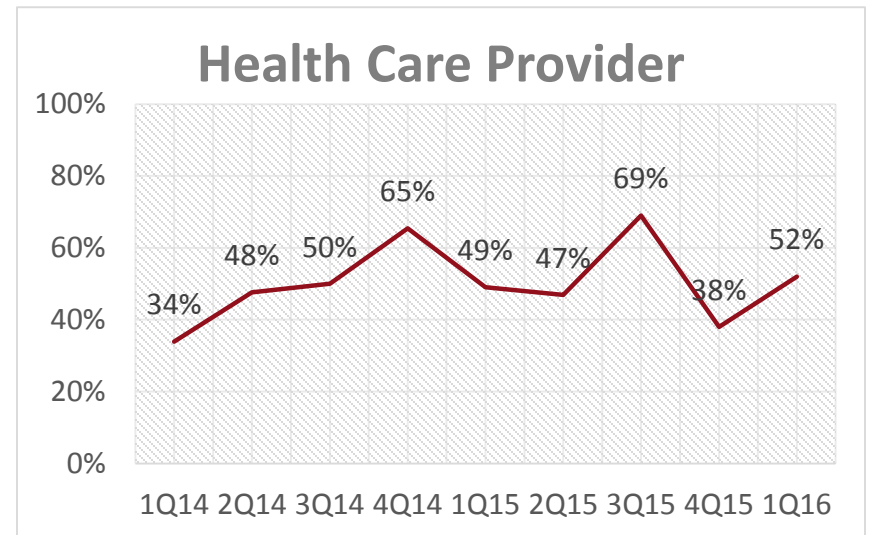
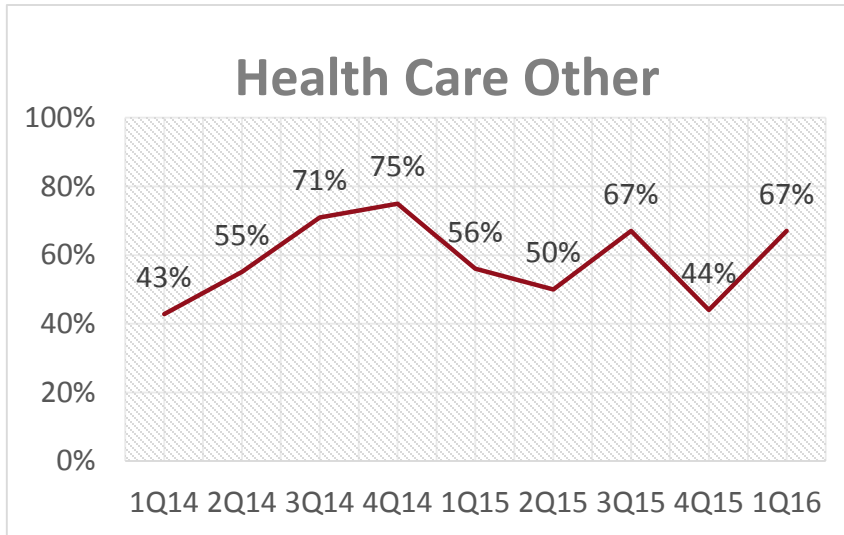
Technology



Organization Optimism by Industry

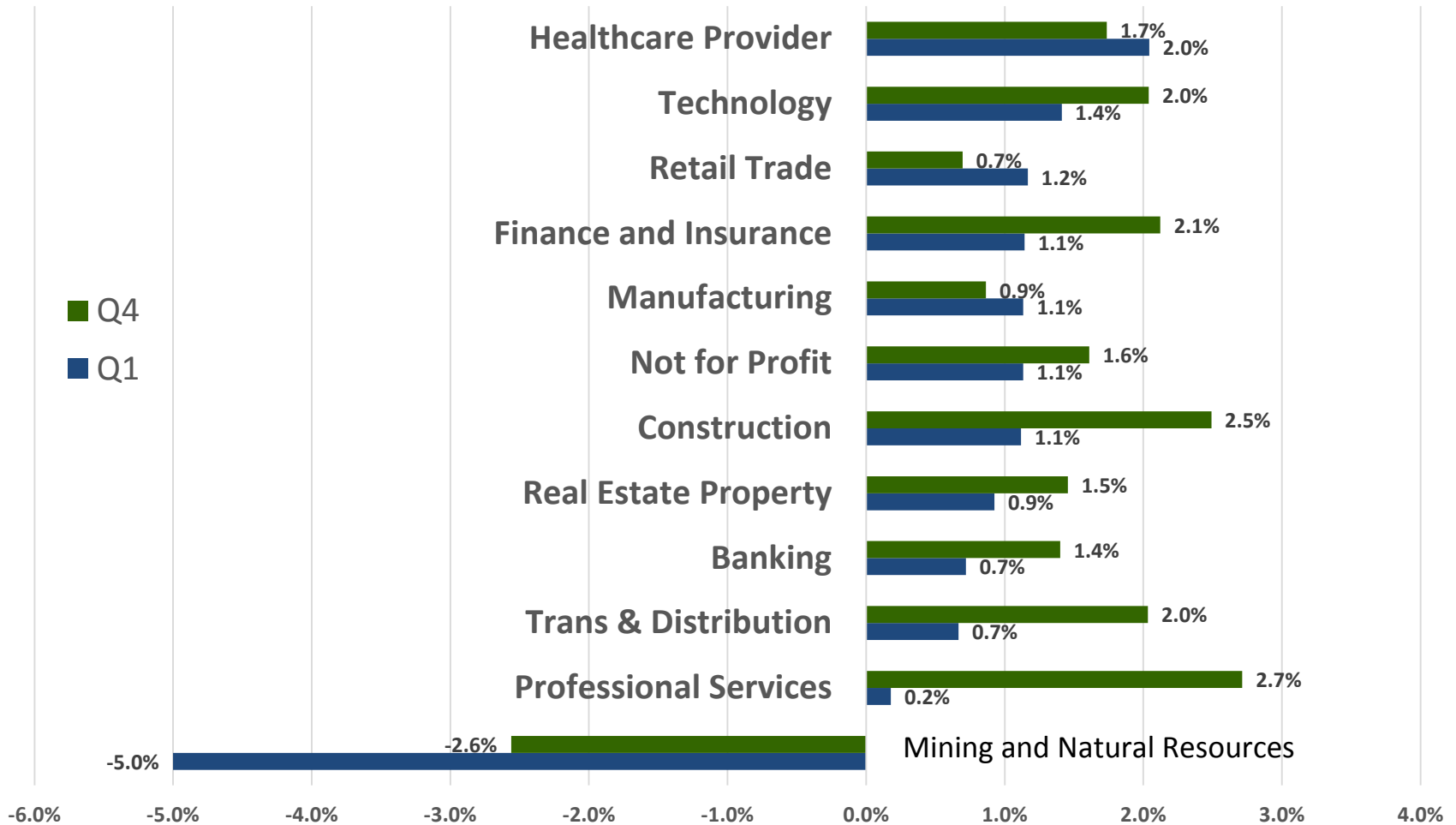


Organization Optimism by Industry



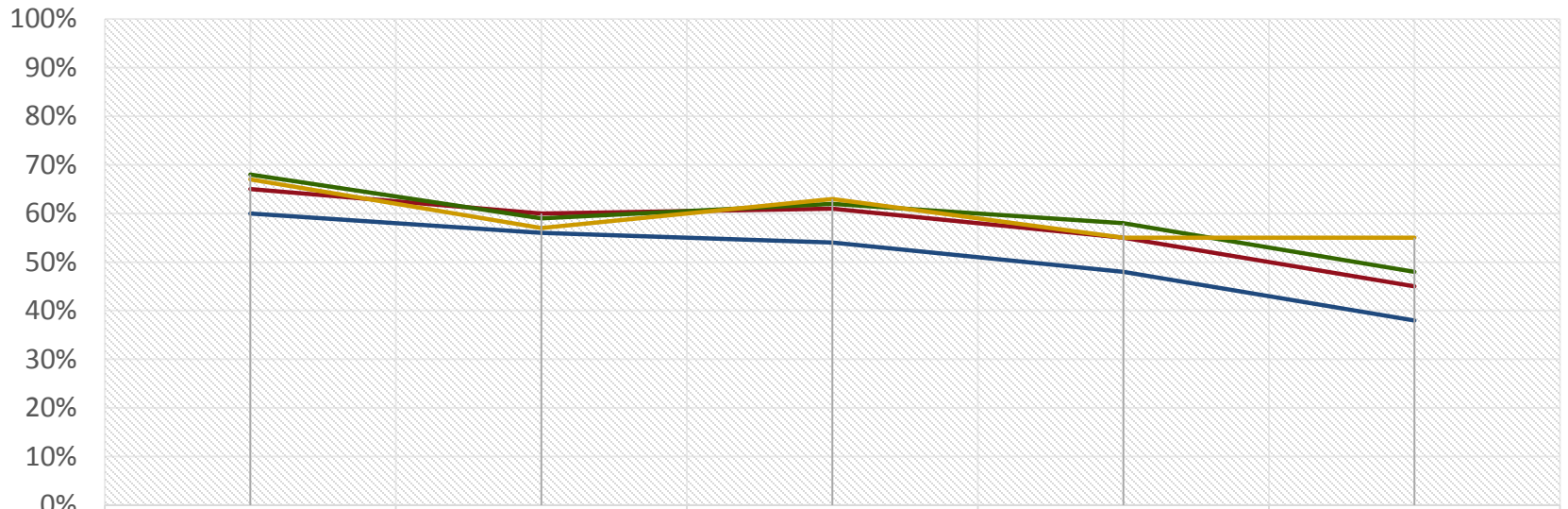
Expected Employment Change by Industry

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



Organization Optimism by Region

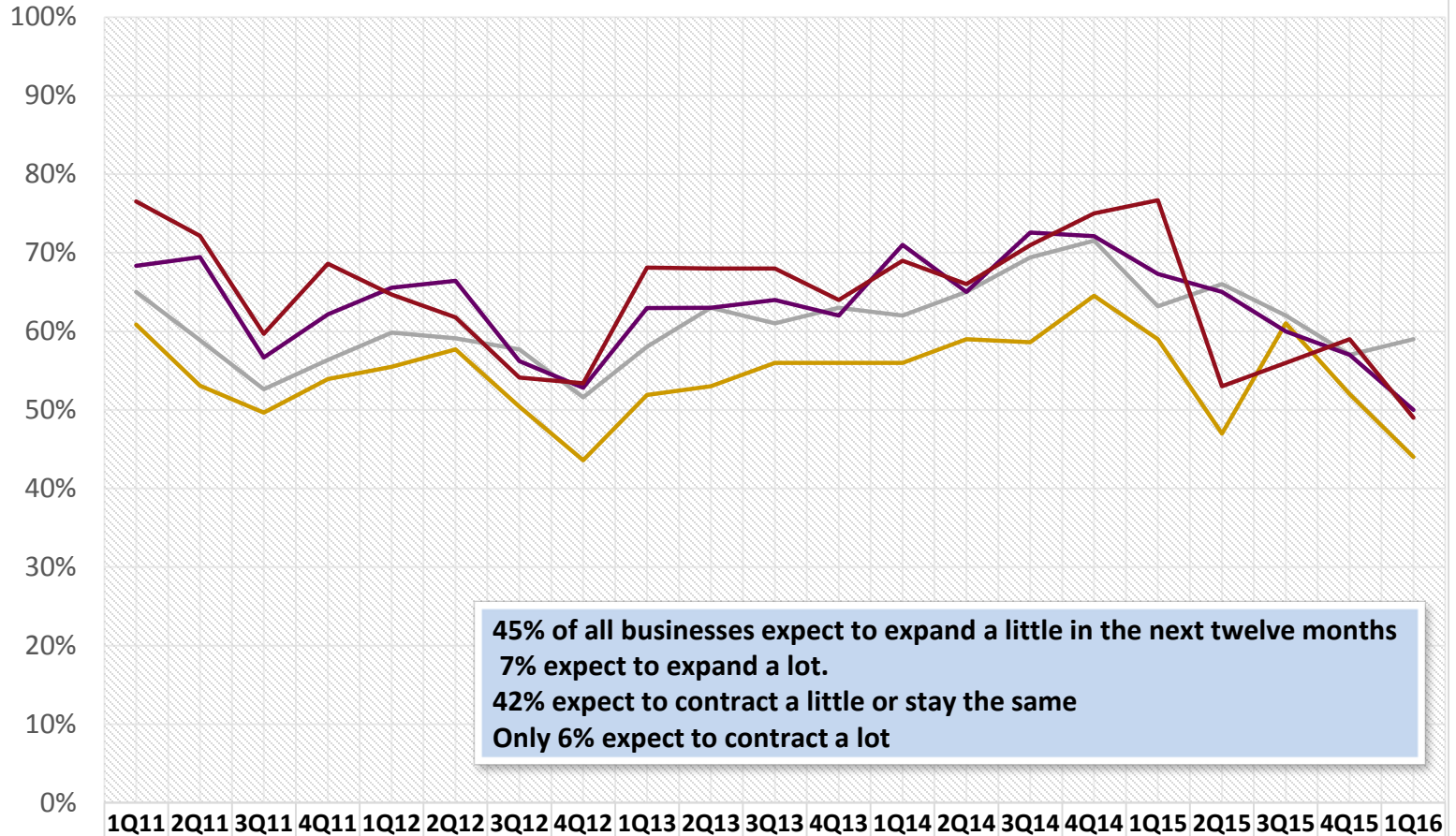
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months.



	1Q15	2Q15	3Q15	4Q15	1Q16
— South	60%	56%	54%	48%	38%
— Midwest	65%	60%	61%	55%	45%
— Northeast	68%	59%	62%	58%	48%
— West	67%	57%	63%	55%	55%

Expansion Plans by Business Size

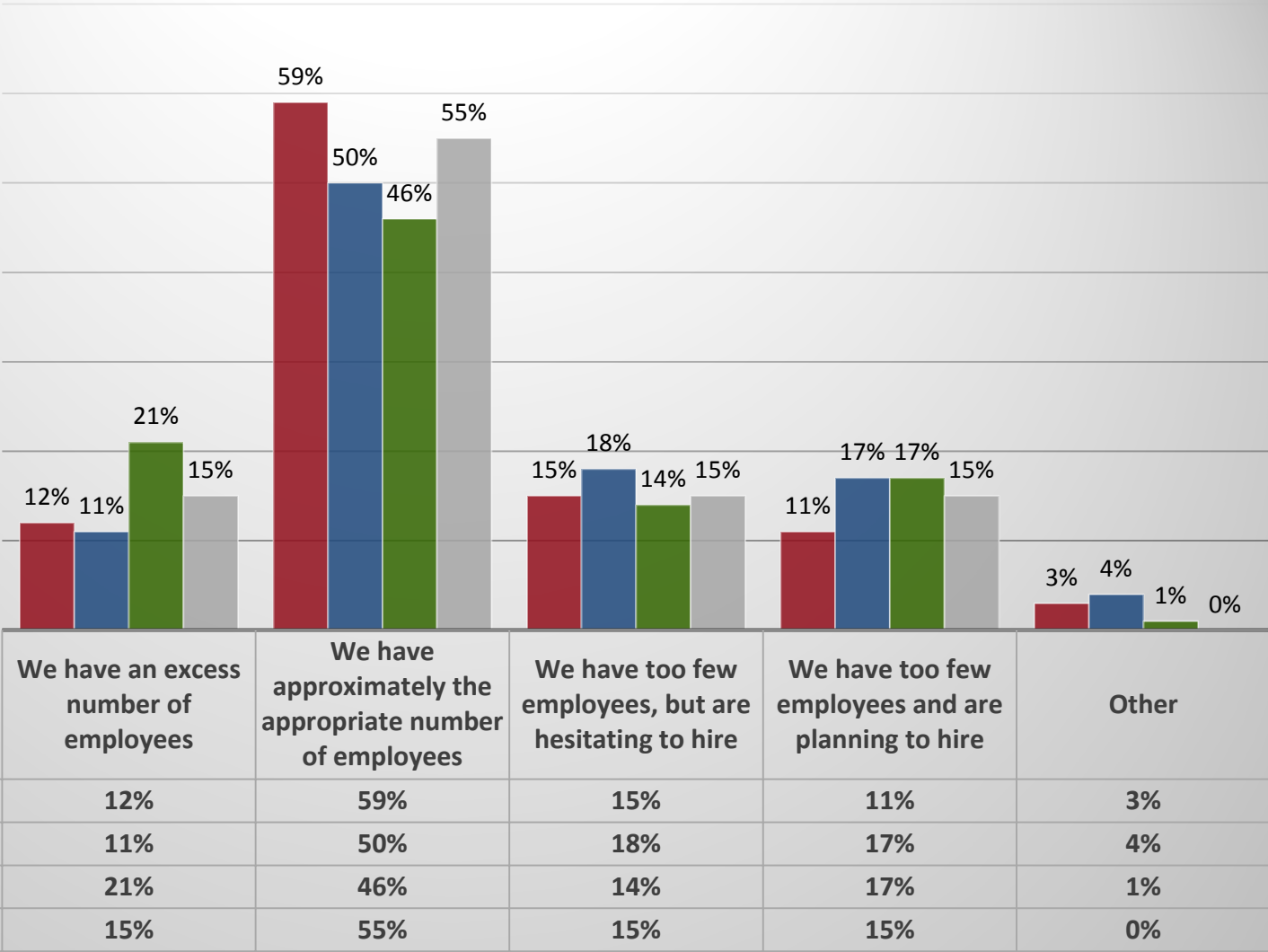
Please indicate whether you expect your business to expand or contract over the next 12 months



	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16
< \$10 million	61%	53%	50%	54%	55%	58%	50%	44%	52%	53%	56%	56%	56%	59%	59%	65%	59%	47%	61%	52%	44%
\$10 to <\$100 million	65%	59%	53%	56%	60%	59%	58%	52%	58%	63%	61%	63%	62%	65%	69%	72%	63%	66%	62%	57%	59%
\$100 million to <\$1 billion	68%	69%	57%	62%	66%	66%	56%	53%	63%	63%	64%	62%	71%	65%	73%	72%	67%	65%	60%	57%	50%
> \$1 billion	77%	72%	60%	69%	65%	62%	54%	53%	68%	68%	68%	64%	69%	66%	71%	75%	77%	53%	56%	59%	49%

Businesses in the \$100 to <\$1 billion range are most likely to have excess employees

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)?



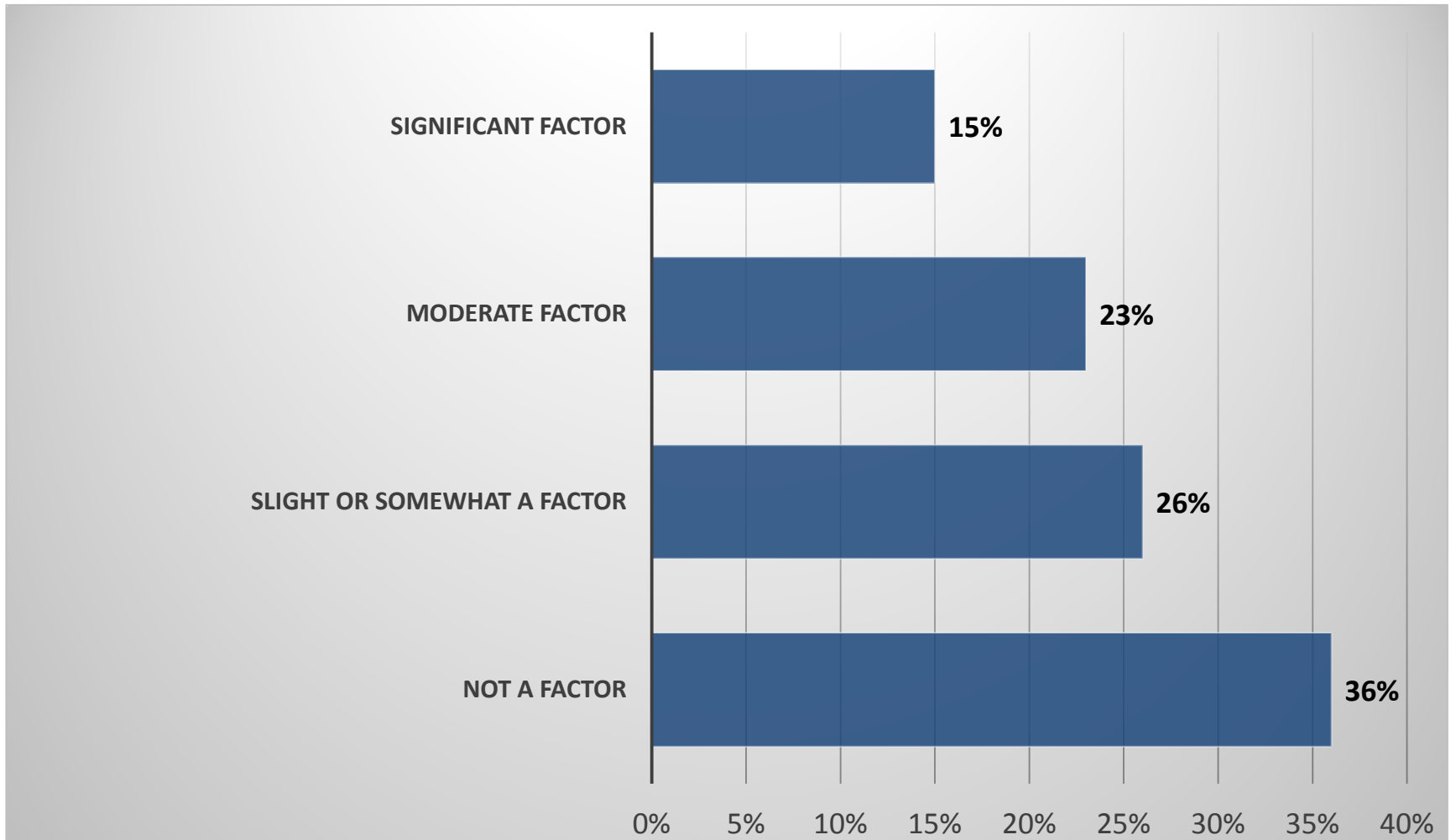
AICPA Economic Outlook Survey 1Q 2016

Survey Within a Survey

2016 Elections
Currency Impacts

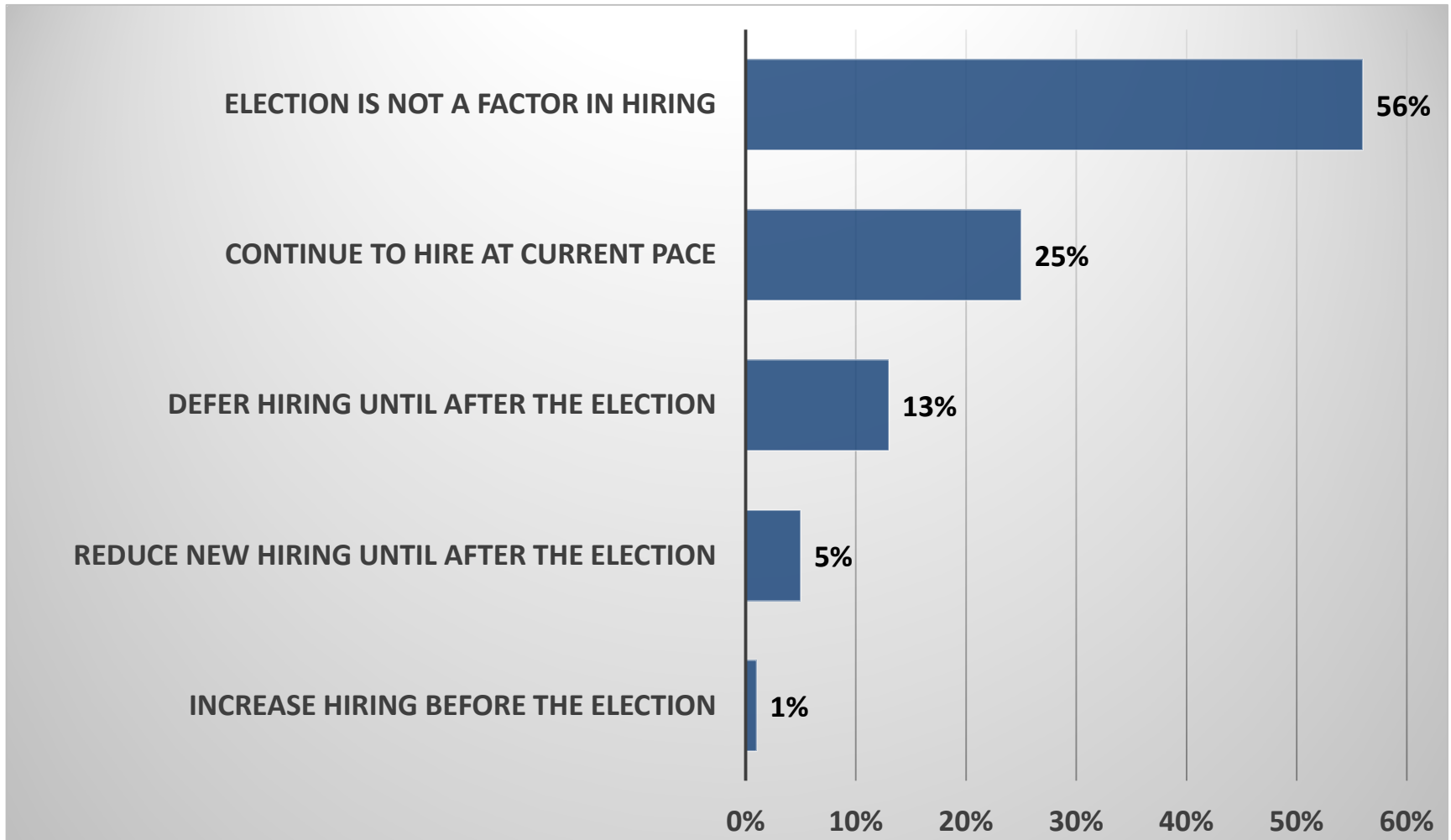
Presidential Election – A Factor in Business Planning?

Has or will the possible outcomes of the upcoming 2016 presidential election be a consideration or factor in your company's business planning, budgeting or forecasting for the next fiscal year?



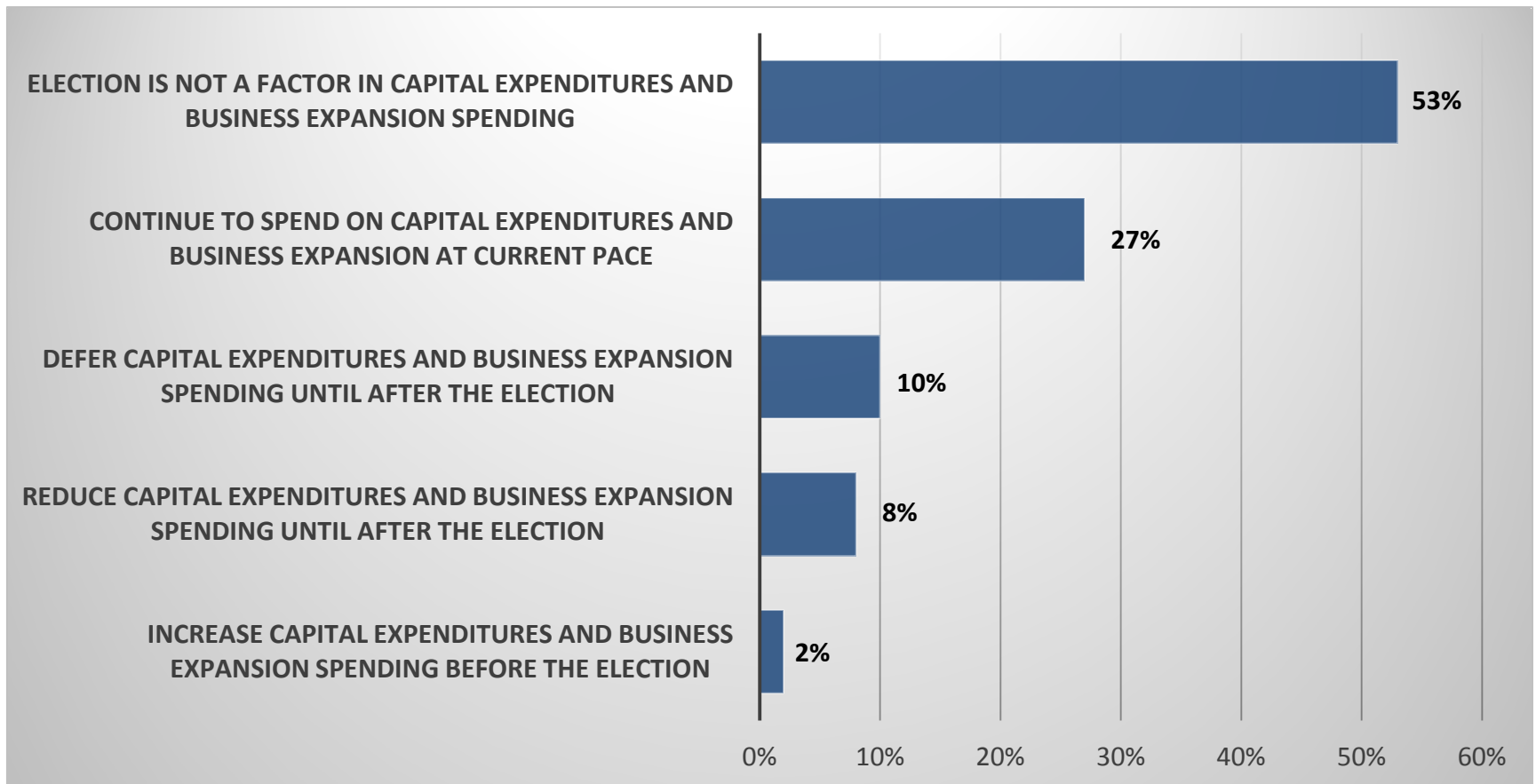
Presidential Election – Job Creation & Hiring

In anticipation of the election, what are your company's most likely actions concerning job creation and hiring?



Presidential Election – Expansion Plans

In anticipation of the election, what are your company's most likely actions concerning capital expenditures and business expansion, including borrowing and financing?



Greatest Impact on Planning and Forecasting

What item(s) are likely to have the greatest impact on your company's business planning, budgeting or forecasting for the next fiscal year? (Top 3)

Increasing or weakening general economic conditions

Outlook for your company's industry or sector

Interest rates and borrowing costs

Strength of US dollar

Potential 2016 election outcomes

Volatility in equity markets

Other ->

Other Impacts on Planning and Forecasting

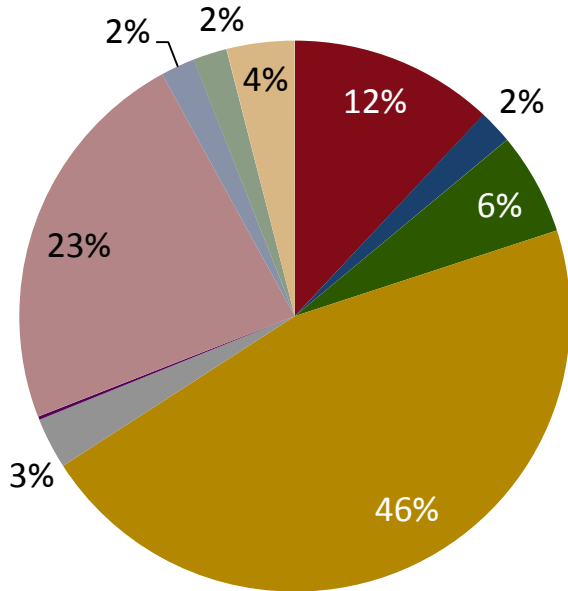
Other Impacts

- Availability of business opportunities
- Getting new products to market
- Supplier issues
- Foreign parent company
- Minimum wage pressure
- Gas prices, commodity costs
- Access to capital, liquidity
- Internal changes
- Execution of new product development
- Major customers shifting buying methods
- Cybersecurity
- Volatility in property markets
- Sales strategy and manufacturing efficiency

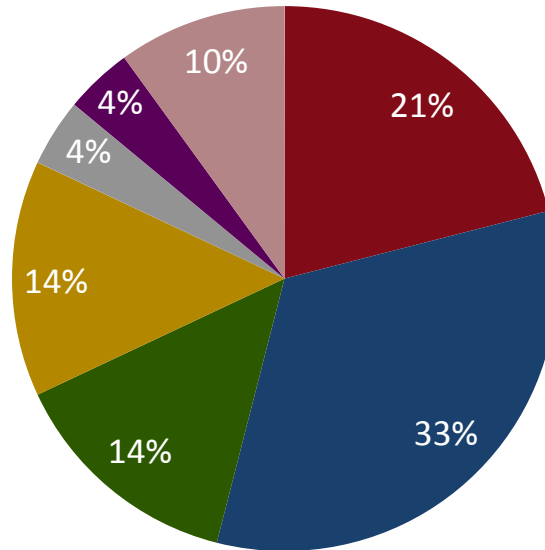
Demographics

Demographics

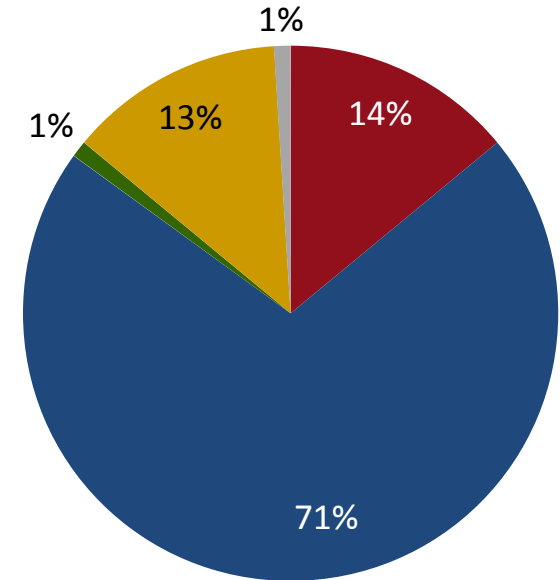
Position



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 1Q 2016

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