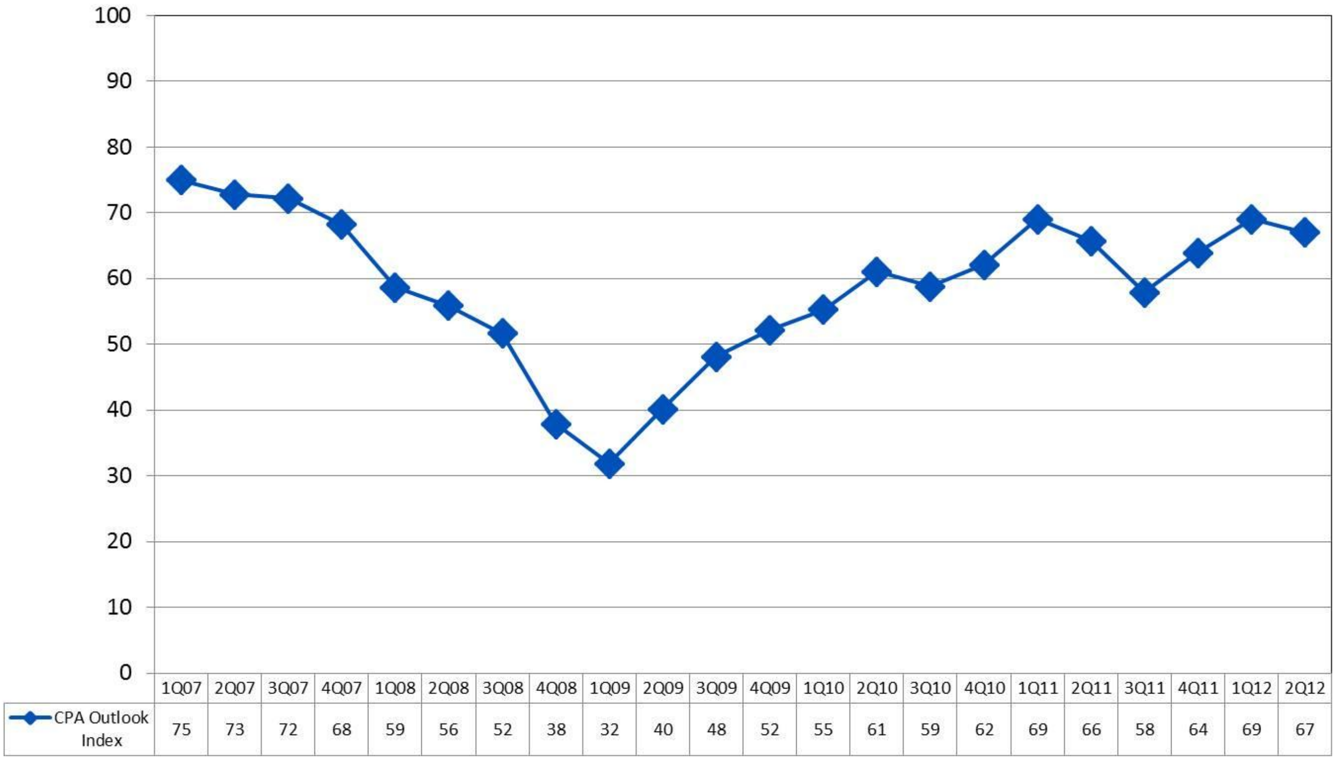
AICPA Business & Industry U.S. Economic Outlook Survey 2Q 2012

The CPA Outlook Index

The CPA Outlook Index (CPAOI), introduced in Q1 2011, 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.

The CPA Outlook Index (CPAOI) dipped down slightly this quarter to 67 from 69 following two consecutive quarters of improvement. The largest contributor to the decrease was the outlook for the US Economy which dropped 7 points although all components except for profits and other capital spending (which were flat) dropped slightly also.

CPA Outlook Index -- ↓ 02



Component	2Q11	3Q11	4Q11	1Q12	2Q12	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	53	25	40	61	54	↓ 07	↑ 01
Organization Optimism	68	60	65	72	70	↓ 02	↑ 02
Expansion Plans	73	66	70	74	72	↓ 02	↓01
Revenue	72	67	70	76	74	↓ 02	↑ 02
Profits	64	62	67	69	69	↔	↑ 05
Employment	62	58	62	64	62	↓ 02	↔
IT Spending	72	68	73	75	74	↓ 01	↑ 02
Other Capital Spending	66	60	66	67	67	↔	↑ 01
Training & Development	62	56	62	66	65	↓ 01	↑ 03

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%].

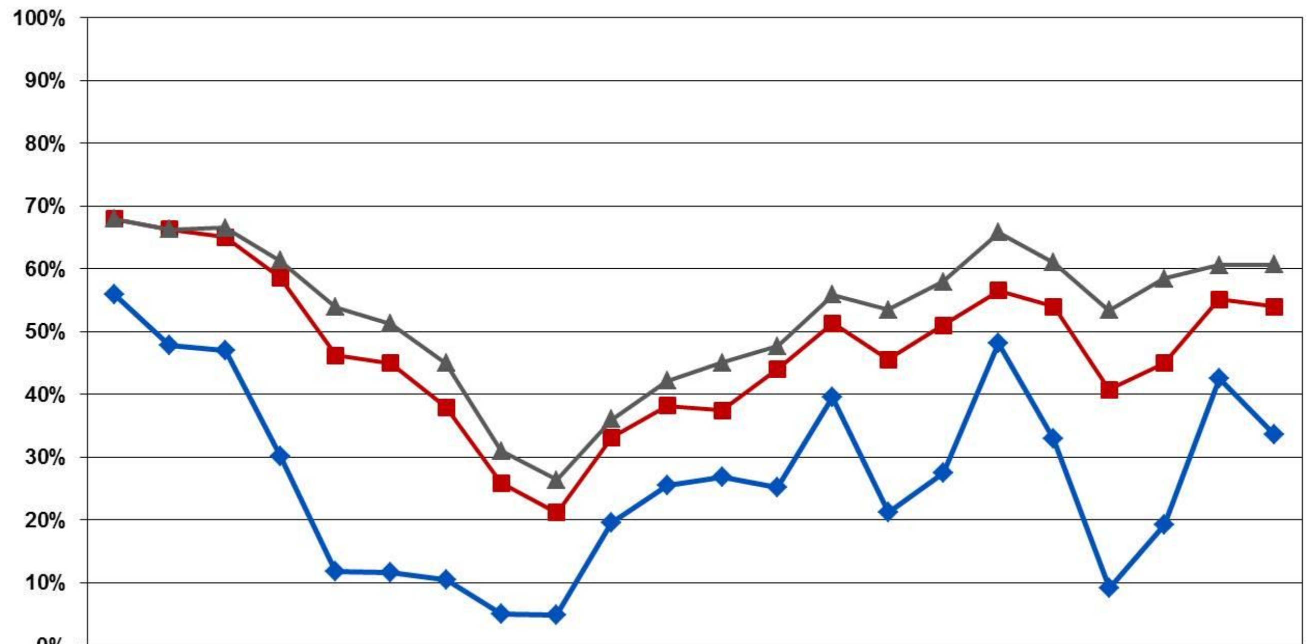
Outlook for the US Economy and Organizations

Outlook for the US Economy sinks but respondents remain positive about prospects for their own organizations.

After two solid quarters of improvement, optimism for the US economy dropped 9 percent this quarter with only 34% of respondents indicating they were optimistic or very optimistic about the outlook for the US economy. At the same time the percentage of pessimists increased from 22% to 26%. This change in outlook parallels what happened between 1Q and 2Q in 2011. Pessimists most often cited concerns about the debt and deficit and the lack of significant job growth. Conversely optimists pointed to job growth, improvement in the housing market and general economic indicators as reasons to be positive. Respondents who were neutral cited politics, the economic situation in Europe and uncertainty surrounding the upcoming elections as the reason for their view.

The majority of CPAs continued to have a positive outlook for their own organizations with 54% responding that they were optimistic or very optimistic. This was stable with the 55% who responded optimistically in 1Q 2012 and is the same as a year ago. Optimists continue to outnumber pessimists by about a 4 to 1 margin (54% to 13%). Expectations for expansion also remained steady with 61% of CPA executives, the same as in 1Q 2012, expecting their organization to expand at least somewhat in the next 12 months. This is the same as 2Q 2011.

Outlook for the US Economy, Organizations & Expansion



	1Q07	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12
US	56%	48%	47%	30%	12%	12%	11%	5%	5%	20%	26%	27%	25%	40%	21%	28%	48%	33%	9%	19%	43%	34%
Organization	68%	66%	65%	59%	46%	45%	38%	26%	21%	33%	38%	38%	44%	51%	46%	51%	57%	54%	41%	45%	55%	54%
Expansion	68%	66%	67%	61%	54%	51%	45%	31%	26%	36%	42%	45%	48%	56%	54%	58%	66%	61%	53%	59%	61%	61%

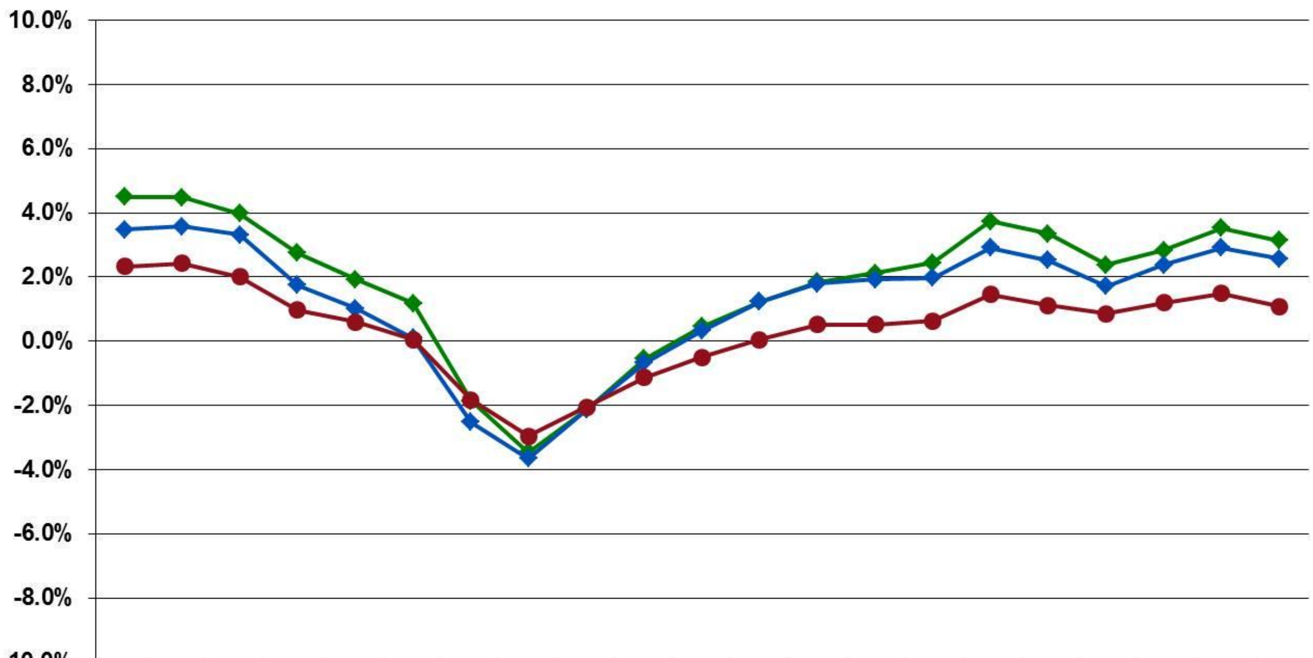
Concerns about inflation continued to drop this quarter – only one third of CPA respondents are concerned about the prospects for inflation over the next six months. This is down significantly from 2Q 2011 when 61% were concerned. Concerns about deflation remained low at 9%. Respondents who were concerned about inflation were most likely to identify raw material costs as the primary concern followed by labor costs. Concerns about energy costs dropped.

Key Performance Indicators

Expectations for revenue, profits and staffing growth drop slightly

Expectations for revenue, profit and employment growth dropped slightly this quarter. Expectations deteriorated Q to Q and are essentially unchanged on a Y to Y basis. Respondents expect revenue to grow an average of 3.1% in the next 12 months, down from 3.5% in 1Q 2012. Profits are expected to increase 2.6%, down from 2.9% last quarter. The average increase in staffing levels is down to 1.1% after improving to 1.5% last quarter.

Expectations for Revenue, Profits and Staffing



	2Q07	3Q07	4Q07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12
Revenue	4.5%	4.5%	4.0%	2.7%	1.9%	1.2%	-1.9%	-3.5%	-2.1%	-0.5%	0.5%	1.2%	1.8%	2.1%	2.4%	3.7%	3.4%	2.4%	2.8%	3.5%	3.1%
Profit	3.5%	3.6%	3.3%	1.8%	1.0%	0.1%	-2.5%	-3.7%	-2.1%	-0.7%	0.3%	1.2%	1.8%	1.9%	2.0%	2.9%	2.5%	1.7%	2.4%	2.9%	2.6%
Employees	2.3%	2.4%	2.0%	1.0%	0.6%	0.1%	-1.8%	-3.0%	-2.1%	-1.1%	-0.5%	0.1%	0.5%	0.5%	0.6%	1.5%	1.1%	0.9%	1.2%	1.5%	1.1%

Respondents' declining concerns about inflation were supported by expectations for prices. Prices paid are expected to increase by 1.9% (down from 2.1% in 1Q 2012) over the next twelve months while prices charged are only anticipated to increase by 1.2% (down .2% from last quarter). Expectations for salary increases remain stable this quarter at 2.0%. Expectations for healthcare cost increases were also stable increasing an insignificant .1% to 6.3%.

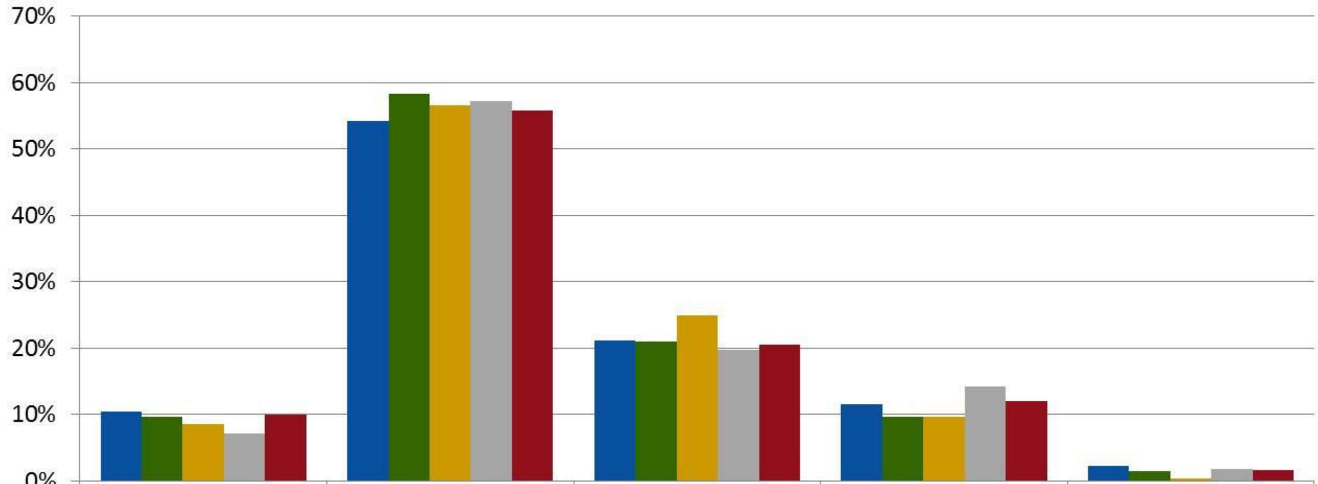
Overall expectations for spending are mixed this quarter. While respondents still expect to increase spending, the magnitude of those increases remains small. Respondents continue to expect to increase IT spending by 2.8% and other capital spending by 2.0%, about the same as last quarter. Training spending is expected to increase 1.2% down from 1.4% last quarter. Expectations for growth in marketing and R&D spending are also down. Marketing spending is expected to increase 1.5% down from 1.8% while R&D spending is expected to increase 1.0% down from 1.2% in 1Q 2012.

Hiring Plans

After a small hiring spurt in 1Q 2012, hiring plans appear to have stabilized again

After some small improvements last quarter, plans for hiring appear to have returned to their longer term norm. The percent of respondents who indicated their organizations were planning to hire in the short-term dropped to 12% from 14% and the percentage who responded that they had excess employees increased from 7% to 10%. Twenty-one percent of respondents indicated that they need employees but are hesitating to hire. Two percent of respondents answered "other" with a number of these commenting that their staffing situation was mixed – excess employees in some areas while other areas required staff.

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
2Q11	11%	54%	21%	12%	2%
3Q11	10%	58%	21%	10%	2%
4Q11	9%	57%	25%	10%	0%
1Q12	7%	57%	20%	14%	2%
2Q12	10%	56%	21%	12%	2%

Liquidity

Liquidity positions strengthen slightly but one quarter of organizations remain reluctant to deploy

The majority of the respondents' organizations continue to have at least as much cash as they need with 36% (up from 34% last quarter) having more than they need and 43% having about the right amount. The same percentage also said that their level of non-cyclical cash and liquid assets had increased over the past six months. Twenty-three percent indicated that their level of cash was lower. This quarter only 12% plan to deploy excess liquidity, while 24% (up from 20% last quarter) continue to be reluctant to deploy their excess. Twenty-one percent of CPA decision-makers said their organizations needed capital, about the same as last quarter. However the percentage that saw obtaining credit as a barrier dropped from 13% to 10% this quarter.

Overall the majority of respondents (58%) continue to believe that obtaining credit would not be more or less difficult than in previous quarters. About 14% felt it would be more difficult while 8% felt it would be less difficult.

Top Challenges

Top challenges remain unchanged

The Top Three challenges remained the same as in the past two quarters with Domestic economic conditions topping the list followed by Regulatory requirements/changes and Employee and benefits costs. However Domestic political leadership continued its climb and replaced Domestic competition in the 4th position. Open-ended comments elsewhere in the survey also indicated that many CPA business leaders are concerned about the current political situation.   Global economic conditions jumped from 10th to 7th place. This also was reflected in the open-ended comments with a number of respondents mentioned the situation in Europe and several also expressing concern about China.

4Q11	1Q12	2Q12
Domestic economic conditions	Domestic economic conditions	Domestic economic conditions
Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes
Employee and benefits costs	Employee and benefits costs	Employee and benefits costs
Stagnant/declining markets	Domestic competition	Domestic political leadership
Domestic competition	Domestic political leadership	Domestic competition
Domestic political leadership	Stagnant/declining markets	Stagnant/declining markets
Materials/supplies/equipment costs	Developing new products/services/markets	Global economic conditions
Developing new products/services/markets	Materials/supplies/equipment costs	Availability of skilled personnel
Global economic conditions	Availability of skilled personnel	Developing new products/services/markets
Availability of skilled personnel	Global economic conditions	Materials/supplies/equipment costs

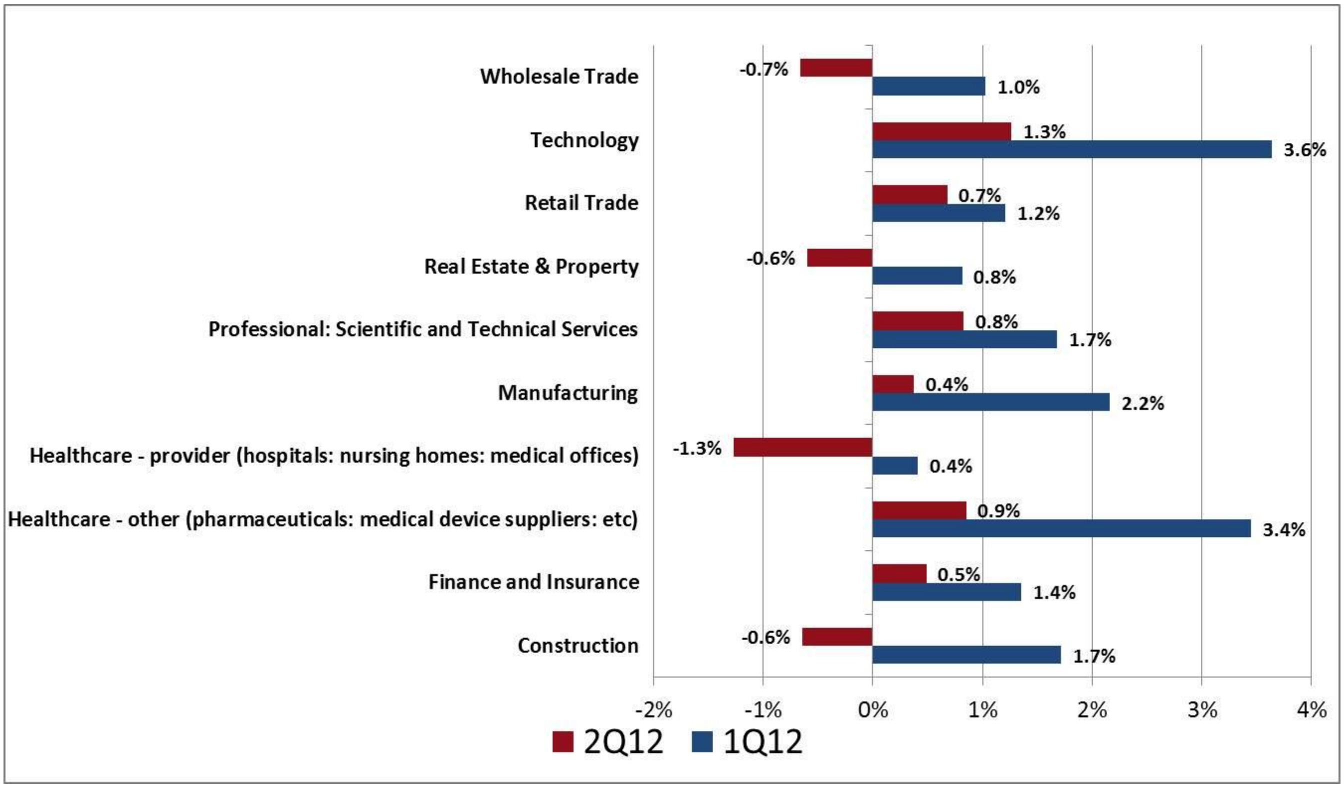
Industry, Region and Business Size Outlook

Industry outlooks vary significantly; most notable in hiring plans

Respondents from only two industries, Health-care providers and Construction, are more optimistic this quarter than in 1Q 2012. Retail and Wholesale Trade respondents' optimism remained stable from quarter to quarter while optimism for other industries dropped.   Despite the increase in optimism Healthcare providers remain the most pessimistic and despite a small drop in optimism Technology industry respondents remain the most optimistic.

The hiring outlook has changed significantly from last quarter when all industries anticipated increased staffing. This quarter four industries, Wholesale Trade, Real Estate and Property, Healthcare providers and Construction, expect reductions in their staff sizes. Technology expects to do the most hiring, anticipating a 1.3% increase in staff size.

Expected Employment Change by Industry



Organizational optimism remained stable across all regions. The Midwest continued to have the highest level of optimism at 59% with the other regions closely clustered five or more points below it. The South had the lowest level at 51%, followed by the Northeast at 52% and the West at 54%.

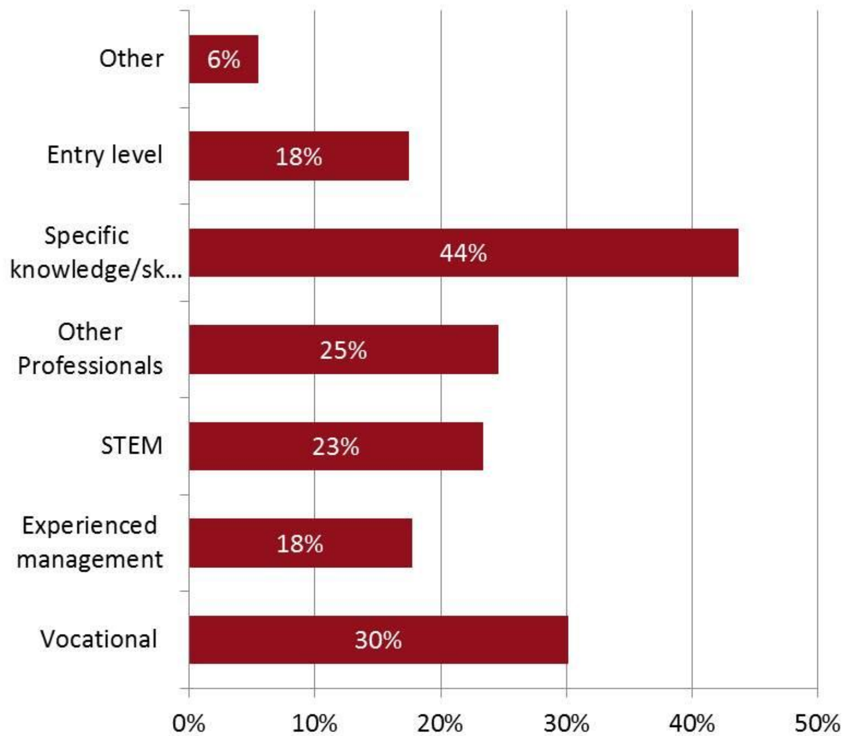
Two notable changes in this quarter's survey were the drop in expansion plans for the largest businesses and the increase in expansion plans for the smallest businesses. The percentage of respondents from businesses with revenues greater than $1 billion who indicated their businesses planned to expand dropped from 65% to 62%. This was the second straight quarter of decline. This drop also meant that for the first time since 1Q 2010 the largest businesses were not the most likely to also have expansion plans. The number one spot this quarter was taken by businesses with revenues between $100 million to < $1 billion with 66% expecting to expand. At the same time the percentage of organizations with revenues under $10 million which plan to expand increased from 55% to 58%. The percent of businesses in the $10 million to <$100 million range that expect to expand increased remained stable at 59%.

Hiring and Skills Availability

Respondents with openings are having trouble finding needed skills

This quarter's survey within a survey focused on hiring and skills availability. Eighty-two percent of respondents have done some hiring in the past six month. Sixty-three percent hired only regulars while 8% hired only interim employees and 11% hired a combination of regular and interim employees. Half of respondents indicated that their companies were having difficulty find personnel with the appropriate qualifications. The most needed people were individuals with specific knowledge of industries, processes and software. Forty-four percent of those unable to find qualified individuals indicated they needed those skills. The next most required skillsets (30%) were vocational and tradespeople following by professionals (25%) such as CPAs, doctors, nurses and lawyers and scientific, technical, engineering and math professionals (23%).

Skills that are Difficult to Find



The lack of certain skills may also be impacting some salaries. While the majority of respondents said that their organizations were offering salaries that were comparable to what they were paying their employees with similar skills, 27% indicated they were offering higher salaries. Only 13% said that they were offering lower salaries. Attrition as the economy improves is not a large concern for most respondents. Slightly over half expressed any concern at all and only 8% said they were very concerned.

Survey Background

The survey was conducted of AICPA Business & Industry members between May 16, 2012 and May 31, 2012 and had 1250 qualified respondents. Forty-six percent of respondents were CFOs, 22% were Controllers, 12%

were CEOs or Presidents, 10% were VPs, 2% were CAOs, CAEs, CIOs, 3% were COOs and the remainder were Directors or Other. Sixty-nine percent of respondents came from privately owned entities, 17% from publicly listed companies, 12% from not-for-profits and 2% from other. Eleven percent came from organizations with annual revenues of 1 billion or more, 24% from organizations with $100 million to under $1 billion in annual revenues, 43% from organizations with $10 million to $100 million and 23% from organizations with under $10 million in revenues (numbers add to more than 100 due to rounding).