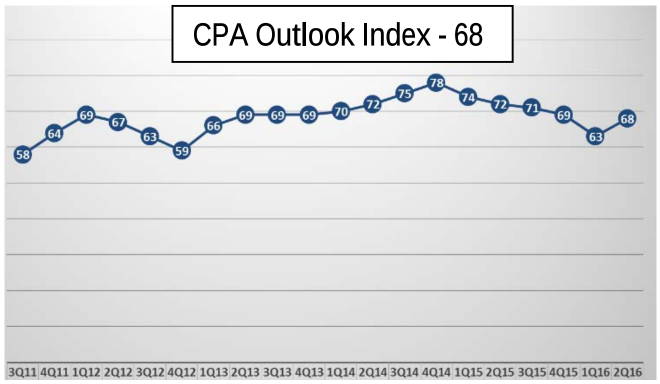
AICPA Business & Industry U.S. Economic Outlook Survey 2Q 2016

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 ↑ 05

The CPA Outlook Index (CPAOI) increased 5 points in the second quarter of 2016 to 68, recovering largely from a sharp decline in optimism about the U.S. economy in the first quarter. Improved optimism about the overall economy is also reflected in increases in most other components of the index as well.



Employment continues to be the softest indicator, but improved four of the eight points lost in the first quarter. Revenue, profit, expansion and spending plans are all showing improvement with the exception of training spending which is flat.

Component	2Q15	3Q15	4Q15	1Q16	2Q16	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	68	67	64	47	59	↑12	↓09
Organization Optimism	73	73	70	63	68	↑05	↓05
Expansion Plans	72	72	70	63	69	↑06	↓03
Revenue	75	76	74	68	74	↑06	↓01
Profits	69	71	67	60	63	↑03	↓06
Employment	67	66	67	59	63	↑04	↓04
IT Spending	77	77	77	73	76	↑03	↓01
Other Capital Spending	72	72	72	67	70	↑03	↓02
Training & Development	71	69	68	67	67	→00	↓04
Total CPAOI	72	71	69	63	68	↑05	↓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

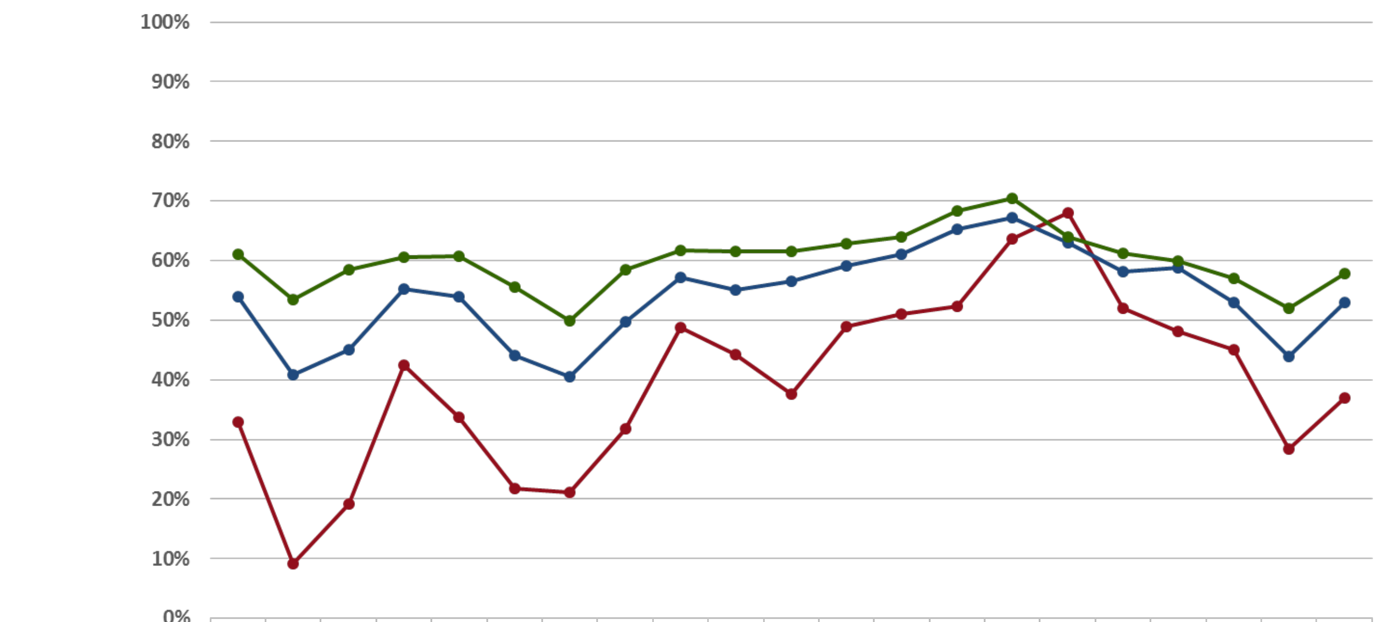
Optimism about the economy, organization and expansion plans all rebound

The number of CPA executives who are optimistic about the economy recovered to 37% after declining to 28% in the first quarter of 2016. Organizational optimism and expansion plans also recovered somewhat in the second quarter.

After falling below 50% for the first time since the ‘fiscal cliff’ debates in 2012, the percentage of respondents optimistic about the prospects for their own organization improved from only 44% in the first quarter to 53% in the second quarter of 2016.

Plans for expansion also rebounded in the second quarter to 58%, up from only 52% in the first quarter.

Outlook for the US Economy, Organizations & Expansion



	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
US	33%	9%	19%	43%	34%	22%	21%	32%	49%	44%	38%	49%	51%	52%	64%	68%	52%	48%	45%	28%	37%
Organization	54%	41%	45%	55%	54%	44%	41%	50%	57%	55%	57%	59%	61%	65%	67%	63%	58%	59%	53%	44%	53%
Expansion	61%	53%	59%	61%	61%	56%	50%	58%	62%	62%	62%	63%	64%	68%	71%	64%	61%	60%	57%	52%	58%

After declining to only 14% in the first quarter we now see 23% being concerned about inflation, essentially the same as in the fourth quarter or 2015. Conversely, only 12% are not concerned about deflation, after jumping to 22% in the first quarter from only 11% in the fourth quarter of 2015.

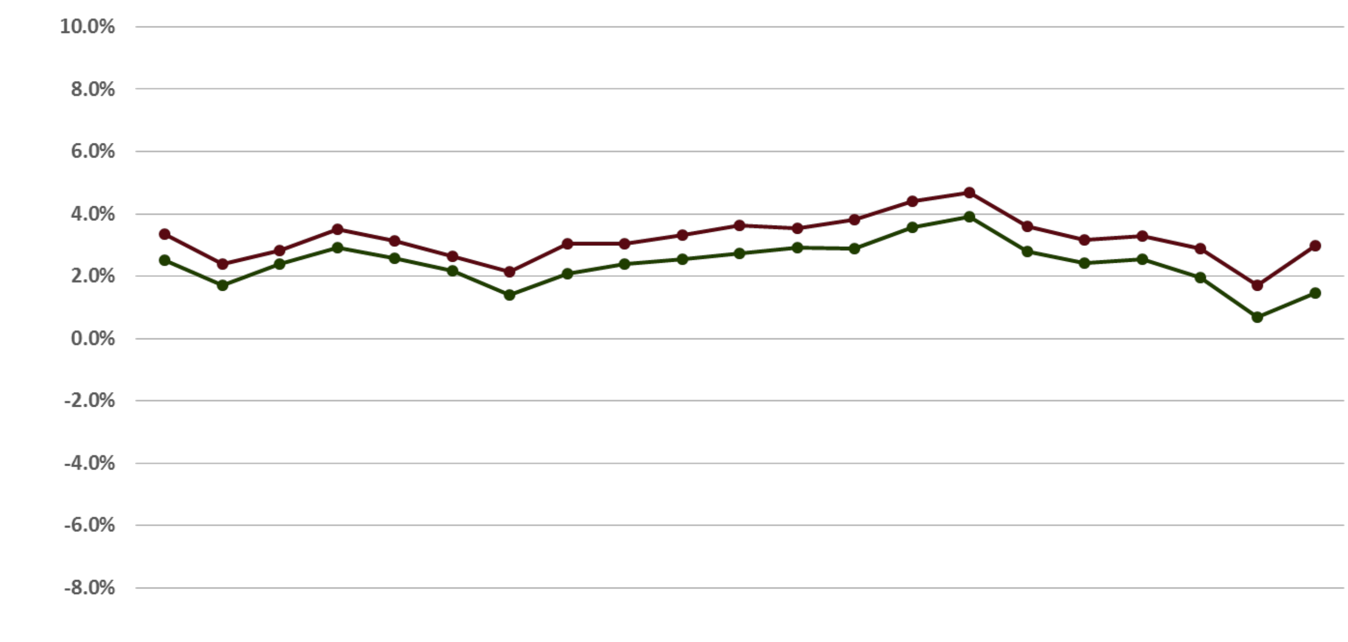
Labor costs continue to be the most pressing concern for 44% of respondents. Raw material costs follow as the top concern for 20%. Energy cost concerns returned to the top concern for 11% of respondents after dropping to only 6% in the first quarter, while interest rate concerns eased from 19% to 16%.

Key Performance Indicators

Outlooks for revenue and profits recover somewhat

Expectations for increased revenues recovered to 3.0% after falling off to only 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 rebounded to 1.5% after dropping to only 0.7% in the first quarter.

Expectations for Revenue and Profits



	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
Revenue	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%	3.2%	3.3%	2.9%	1.7%	3.0%
Profit	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%	2.4%	2.6%	2.0%	0.7%	1.5%

IT continues to be the strongest category of planned spending over the upcoming twelve months and recovered to 2.6% after falling to only 2.3% in the first quarter. Other capital spending plans also rebounded from only 1.5% in the first quarter to 2.1% in the second quarter. Spending for training and development also improved two tenths to 1.3% after falling to only 1.1% in the first quarter.

Expectations for healthcare cost increases continue to be higher than other costs, and also ticked up to 5.7% after easing off to only 5.4% in the previous two quarters.

The expected increase in “other input prices” returned to the 2.1% level seen in the fourth quarter of 2015. Fortunately, the expected ability to increase “prices charged” also rebounded to 1.3% in the second quarter, after falling off to only 0.8% in the first quarter.

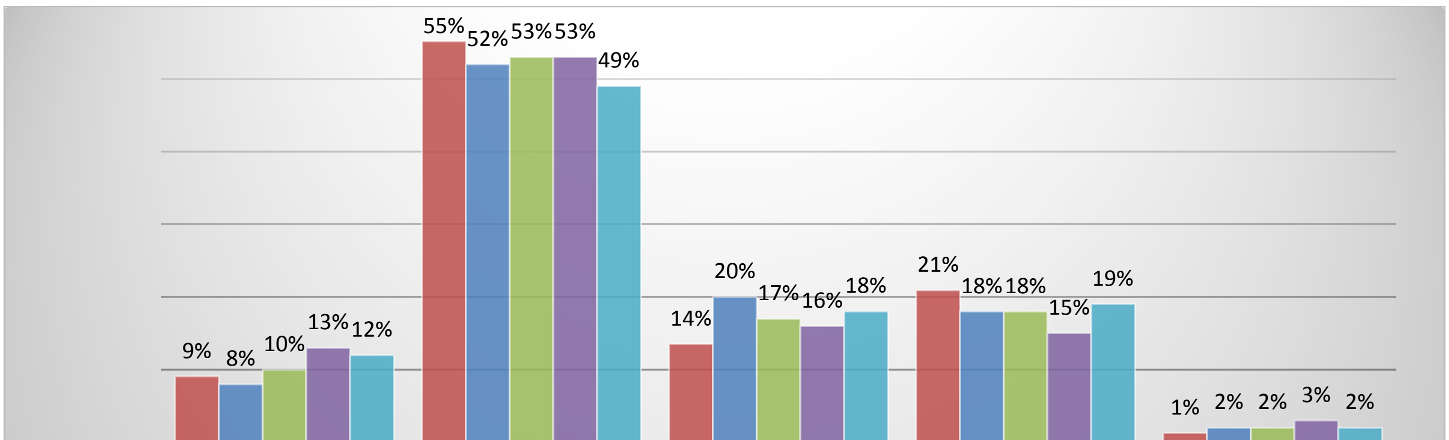
Hiring Plans

Improved optimism also having favorable impact on hiring

In the second quarter, 49% of all companies now say they have the appropriate number of employees, down from the 52% - 55% ranger over the past year. Those saying they have an excess number of employees eased a point this quarter from 13% to 12%.

More than a third (37%) indicate that they currently have two few employees. Of these, the percentage of companies who are reluctant to hire increased from 16% in the first quarter to 18% in the second quarter. However, the percentage of companies that are planning to hire increased from 15% to 19%.

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
2Q15	9%	55%	14%	21%	1%
3Q15	8%	52%	20%	18%	2%
4Q15	10%	53%	17%	18%	2%
1Q16	13%	53%	16%	15%	3%
2Q16	12%	49%	18%	19%	2%

Industry, Region and Business Size Outlook

Optimism improves in most sectors; remains constant in manufacturing and construction

Retail trade continued its rebound from the fourth quarter of 2015, now having 50% of its respondents optimistic about their prospects. Wholesale trade optimism also recovered further to 50% in the second quarter. However, retail hiring continues to be soft, easing from 1.2% in the first quarter to only 0.9% in the second quarter.

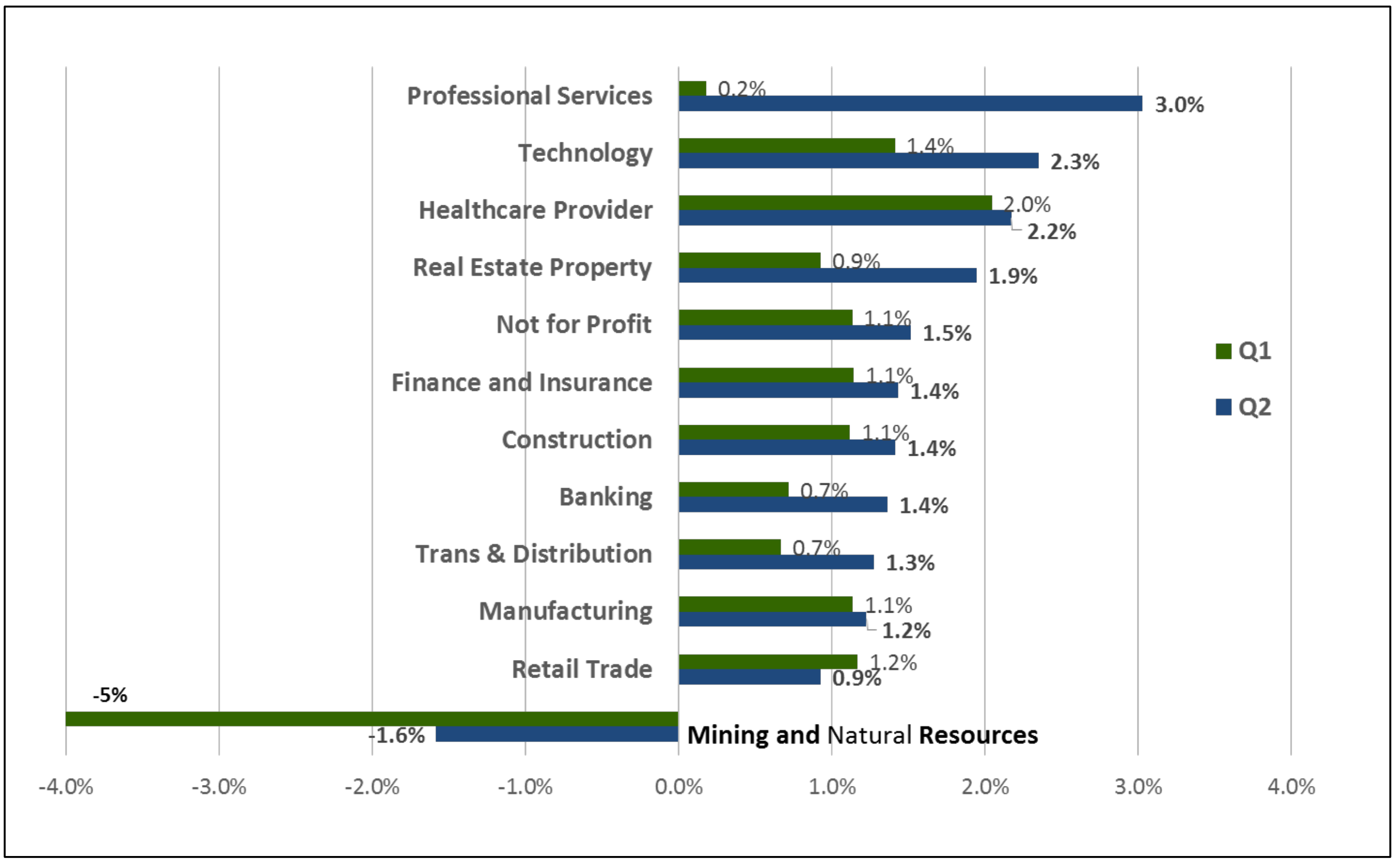
Manufacturing remained constant at 48% optimistic. Hiring in the manufacturing sector also held relatively constant, improving only a tenth to a 1.2% expected increase in headcount for the coming twelve months.

Similarly, construction optimism also remained consistent with the first quarter at 59%. However, on the positive side, the expected increase in headcount in the construction sector improved to 1.4% in the second quarter, up from 1.1% in the first quarter. Real estate optimism also improved in the second quarter to 58%.

Professional services rebounded significantly from only 46% optimistic in the first quarter to 70% in the second quarter. Anticipated hiring in professional services also rebounded to the top of the chart, now with an expected headcount increase of 3.0% for the next twelve months.

Technology optimism and hiring also recovered in the second quarter. With 61% of technology respondents now optimistic about their prospects, anticipated hiring improved from an expected increase of only 1.4% in the first quarter to an expectation now of 2.3% for the coming year.

Expected Employment Change by Industry



Finance and insurance also improved to 58% optimistic, up from only 41% optimistic in the first quarter.

More than two-thirds (69%) of healthcare providers are now optimistic, continuing to rebound after falling off to only 38% optimistic in the fourth quarter of 2015. Healthcare-other respondents eased slightly from to 63% from 67% optimistic in the first quarter.

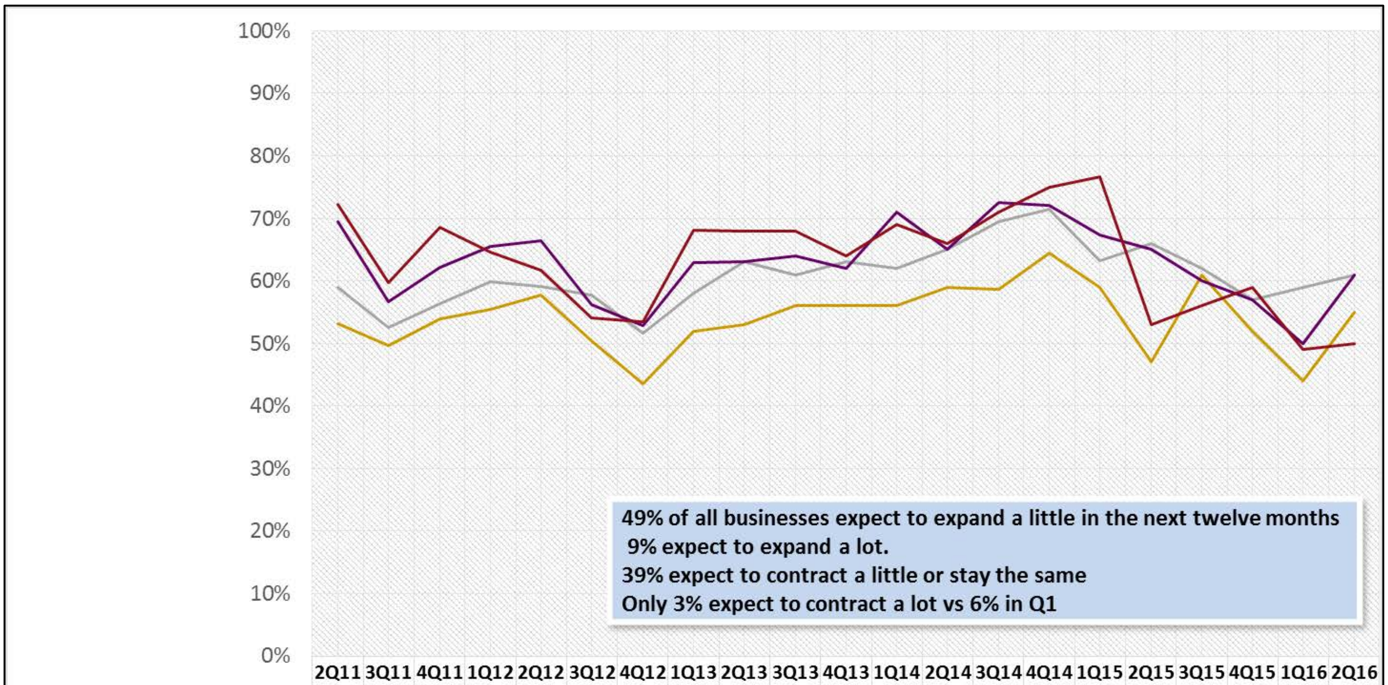
In terms of regional perspective, the Northeast regained its claim as the most optimistic region at 62%, up from only 48% optimistic in the first quarter. The South rebounded from only 38% optimistic in the first quarter to 53% in the second quarter. The Midwest also recovered slightly from 45% to 53%, while the West eased a point from 55% to 54%.

Industry, Region and Business Size Outlook (cont'd)

Expansion plans improve for all segments:

- The number of companies with revenues < $10 million having expansion improved from 44% in the first quarter to 55% in the second quarter;
- Expansion plans for the $10-$100 million range of companies improved slightly from 59% to 61%;
- The $100 million to <$1 billion range of companies recovered with 61% of companies now saying they have expansion plans, up from only 50% in the first quarter;
- However, the percentage of companies with revenues > $1 billion having expansion plans improved only slightly from 49% to 50%, after falling off from 59% with expansion plans in the fourth quarter of 2015

Expansion Plans by Business Size



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

Top Challenges

Regulatory requirements return to the top of the list of challenges

Regulatory requirements returned to the top of the list of challenges in the second quarter, after being displaced by domestic economic conditions in the first quarter.

Domestic economic conditions, availability of skilled personnel, domestic competition and employee and benefits costs round out the top five.

Stagnant/declining markets fell from the third-ranked challenge to number six, followed by domestic political leadership holding its spot at number seven. Developing new products/services/markets maintained its hold on the eighth slot.

Staff turnover and financing/cost of capital both dropped out of the top ten this quarter, being replaced by concern about liquidity at the number nine spot and energy costs at number ten.

Top Challenges Facing Organizations

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

Survey Background

The survey was conducted of AICPA Business & Industry members between May 10-26, 2016 and had 744 qualified respondents.

CFOs comprised 37% of the respondents, 23% were Controllers, 7% were CEOs or Presidents, 10% were VPs, 1% were COOs; the remainder were Directors or other executives.

Sixty-four percent of respondents came from privately owned entities, 21% from publicly listed companies, and 12% from not-for-profits.

Seventeen 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 16% from organizations with under $10 million in revenues (numbers may add to more than 100 due to rounding).