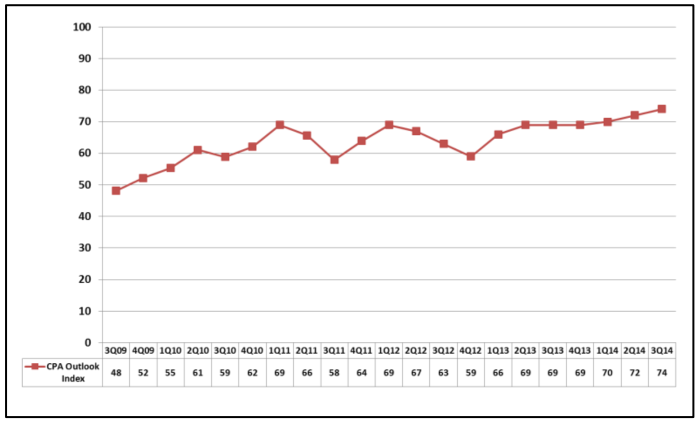
AICPA Business & Industry U.S. Economic Outlook Survey 3Q 2014

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 - ↑ 02



The CPA Outlook Index (CPAOI) increased again in the second quarter from 72 to 74 with each of the components improving from the second quarter 2014.

Optimism about the US Economy increased 2 points to 69. Three point increases in both the organizational optimism and expansion plan components are supported by five point improvements in the revenue, profits and employment components. Spending plans also continue to be robust.

Component	3Q13	4Q13	1Q14	2Q14	3Q14	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	62	56	65	67	69	↑ 02	↑ 07
Organization Optimism	71	73	74	75	78	↑ 03	↑ 07
Expansion Plans	74	74	74	76	79	↑ 03	↑ 05
Revenue	76	77	76	77	82	↑ 05	↑ 06
Profits	68	69	70	69	74	↑ 05	↑ 06
Employment	64	64	64	65	70	↑ 05	↑ 06
IT Spending	75	76	76	77	79	↑ 02	↑ 04
Other Capital Spending	68	69	67	70	74	↑ 04	↑ 06
Training & Development	65	67	68	70	73	↑ 03	↑ 08
Total CPAOI	69	69	70	72	74	↑ 02	↑ 05

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

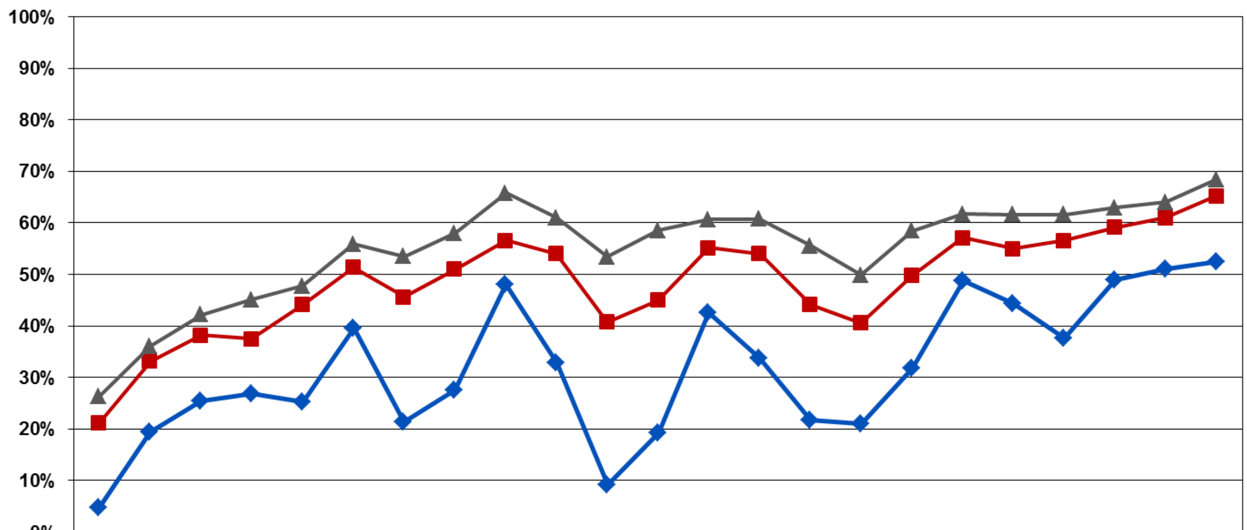
Improved view of US Economy bolsters outlook and plans for organizations

The number of financial executives optimistic about the US Economy improved another point to 52% after passing the 50% mark in the second quarter for the first time since the recession.

This improvement in the outlook for the economy has also bolstered the outlook for company prospects and their plans for expansion, spending and hiring. The number of companies optimistic about their own prospects improved from 61% to 65% and those with expansion plans from 64% to 68%.

Those who were optimistic most frequently cited improved prospects in the real estate market and declining unemployment as the reasons for their improved view. Lingering concerns about leadership/politics and global affairs were cited by those who were neutral or pessimistic. In fact, global economic conditions resurfaced to the number six ranking on our Top Challenges list this quarter after declining in importance over the course of 2012 and 2013.

Outlook for the US Economy, Organizations & Expansion



	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
US	5%	20%	26%	27%	25%	40%	21%	28%	48%	33%	9%	19%	43%	34%	22%	21%	32%	49%	44%	38%	49%	51%	52%
Organization	21%	33%	38%	38%	44%	51%	46%	51%	57%	54%	41%	45%	55%	54%	44%	41%	50%	57%	55%	57%	59%	61%	65%
Expansion	26%	36%	42%	45%	48%	56%	54%	58%	66%	61%	53%	59%	61%	61%	56%	50%	58%	62%	62%	62%	63%	64%	68%

Concerns about inflation increased from 32% to 38% of CPA respondents being concerned about the prospects for inflation over the next six months. Only 5% expressed concern about deflation.

This increase in concern about inflation may be reflected in the rebound in concern about interest rates. In the first quarter 2014, the percentage of respondents that indicated interest rates as the inflationary factor representing the most significant risk to their business

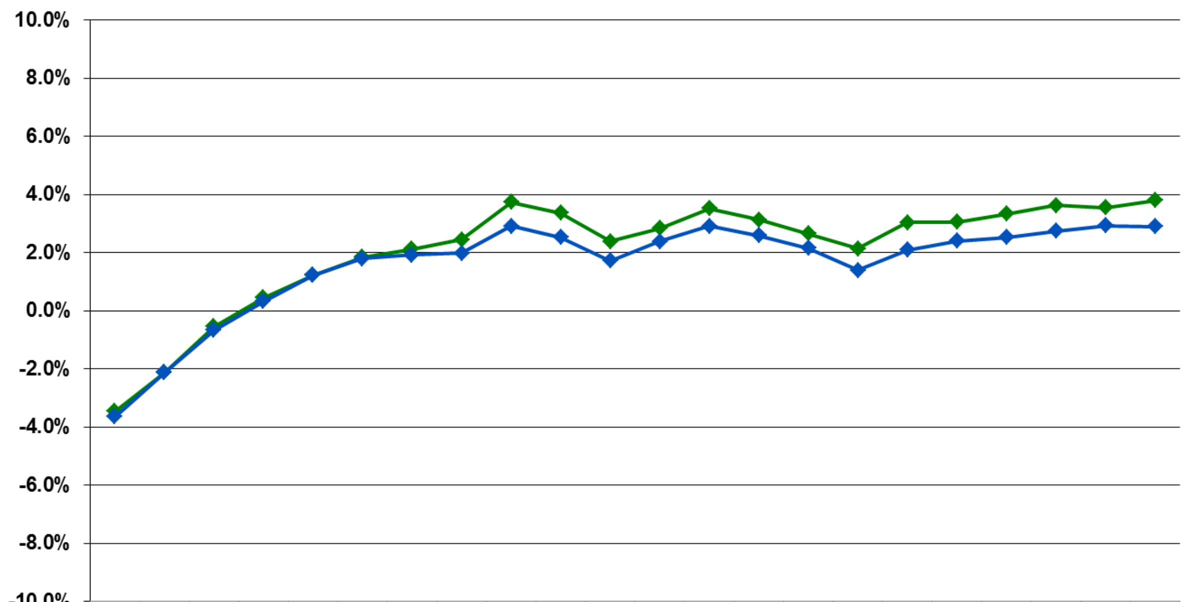
Key Performance Indicators

Expectations for revenue, profits, and headcount improve to new highs; spending plans also continue to be robust

Expectations for increased revenues improved from 3.8% in the second quarter to 4.4% in the third quarter. Expectations for higher profits rose from 2.9% to 3.6%, and expectations for increasing headcount improved from 1.3% to 1.8%. Each of these indicators represent new post-recession highs to levels not seen since the end of 2007.

While turnover dropped from our top ten challenge list this quarter, the projected salary and benefit cost increase for the upcoming twelve months rose from 2.1% to 2.4%. The expectation for increased healthcare costs also bounced back to 6.6% after declining slightly from the first quarter to the second quarter.

Expectations for Revenue and Profits



	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Revenue	-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%	2.6%	2.1%	3.0%	3.1%	3.3%	3.6%	3.6%	3.8%
Profit	-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%	2.2%	1.4%	2.1%	2.4%	2.5%	2.7%	2.9%	2.9%

While the concern about inflation increased slightly this quarter, the expectation for the increase in input prices eased slightly from 2.4% to 2.3%. Unfortunately, this was also paralleled by a slight decline in the expectation about the ability to increase prices charged which eased from 1.8% to 1.7%.

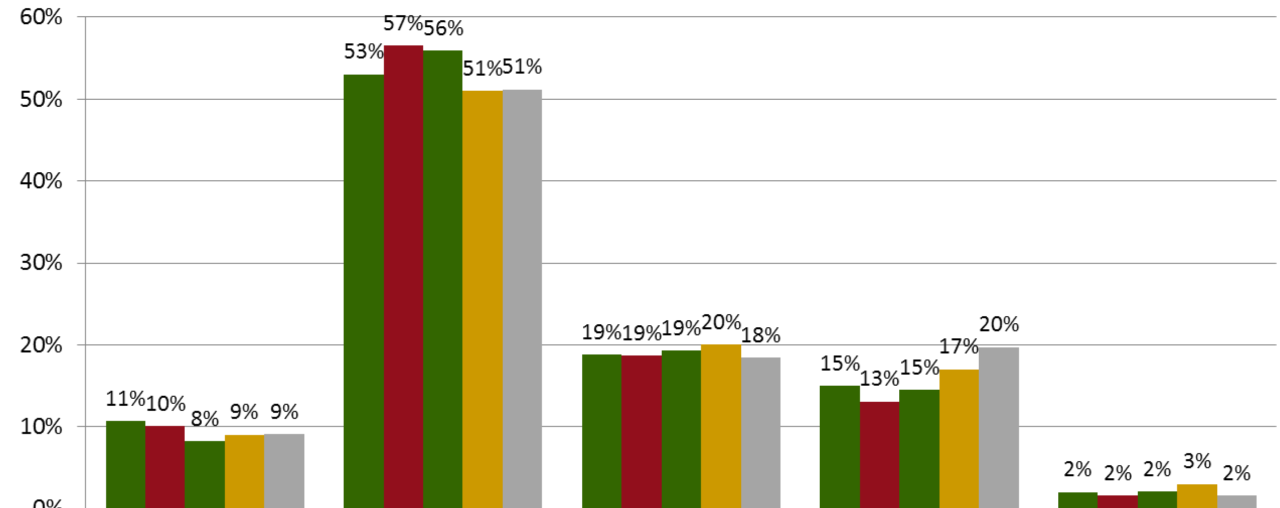
Spending plans continue to be robust. Plans for increased IT spending at 3.3%, other capital at 2.9% and training spending are all projected levels also not seen since 2007. The projected increase in marketing spending held constant from the second quarter at 1.6%, but the R&D projection ticked up to 1.2% after hovering at, or below, only 1.0% for the past several quarters.

Hiring Plans

Percentage of companies planning to hire continues to improve

Slightly more than half of all companies (51%) continue to say they have the right number of employees. The number of companies that say they have too many employees remained relatively constant with recent quarters at 9%. The percentage of companies reluctant to hire decreased two points from 20% in the second quarter to 18% in the second quarter. However, the number of companies with too few employees that are planning to hire increased to 20% which is up from 15% in the first quarter of 2014, and only 9% in the third quarter a year ago.

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
3Q13	11%	53%	19%	15%	2%
4Q13	10%	57%	19%	13%	2%
1Q14	8%	56%	19%	15%	2%
2Q14	9%	51%	20%	17%	3%
3Q14	9%	51%	18%	20%	2%

Industry, Region and Business Size Outlook

Optimism up overall, Northeast and Midwest show strong improvement

Professional, scientific and technical services topped the charts in terms of optimism this quarter with 76% of this sector's respondents being positive about the prospects for their own organization; this optimism is also supported by plans for increased headcount of 4% over the coming year, up from a 2.6% projected increase last quarter.

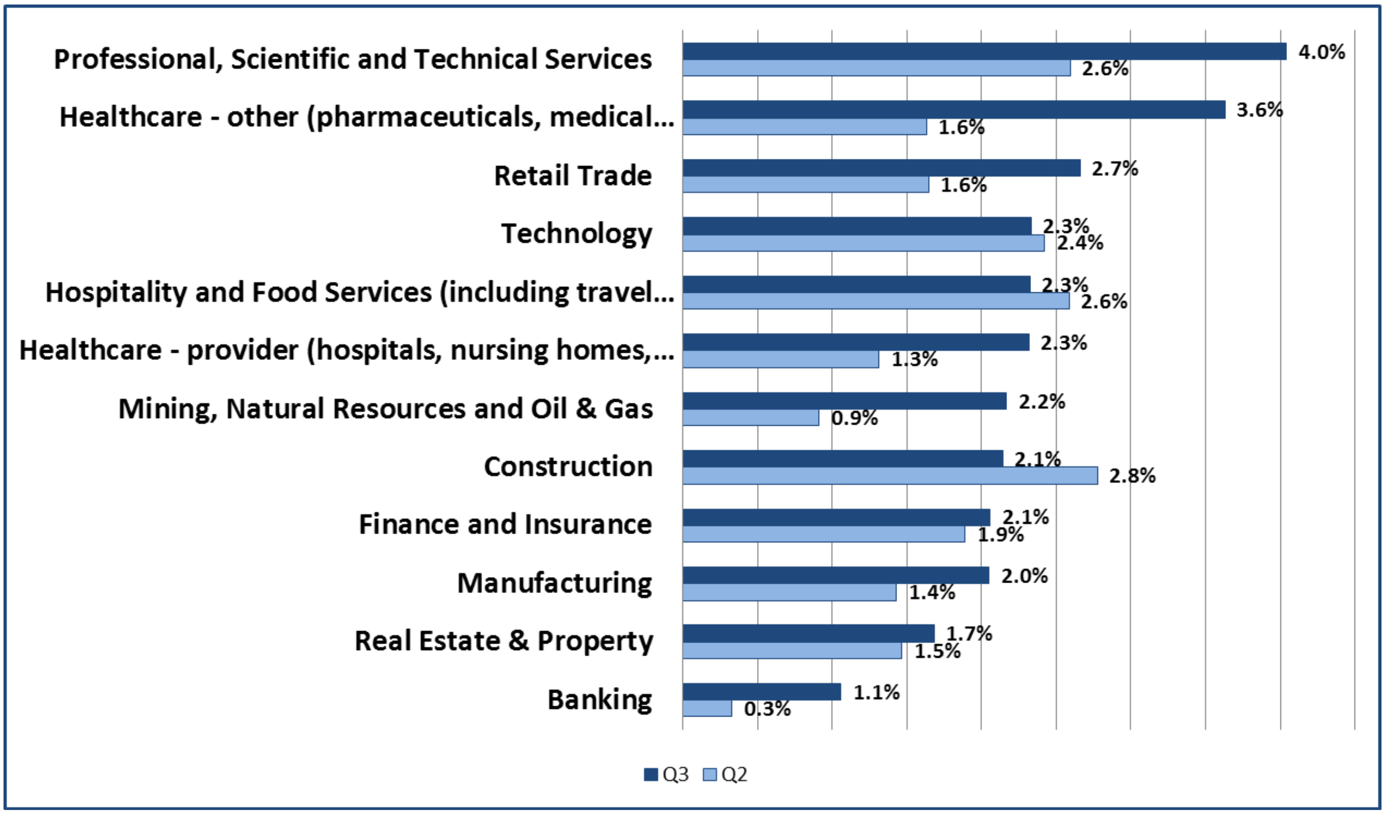
Healthcare-other, (pharmaceuticals, medical devices, etc.) showed similar gains with optimism increasing to 71% from only 55% in the second quarter; projecting hiring in this sector also improved from a projected increase of 1.6% in the second quarter to 3.6%.

Manufacturing also showed meaningful improvement in optimism, increasing to 72% this quarter from 62% in the second quarter; headcount is expected to increase by 2%, also up from their second quarter projection of 1.4%

Technology, on the other hand, fell off sharply in terms or optimism from 72% last quarter to only 58% optimistic this quarter, paralleling a similar sharp decline in the third quarter of 2013 to 56%; the technology hiring projection for the next twelve months declined only modestly from 2.4% to 2.3%.

Optimism in both the retail (67%) and wholesale (61%) trade sectors both improved in the third quarter, while real estate (70%), construction (69%), and finance and insurance (61%) showed minor fluctuations. Healthcare providers continue to be the least optimistic but did reach the 50% optimistic mark this quarter.

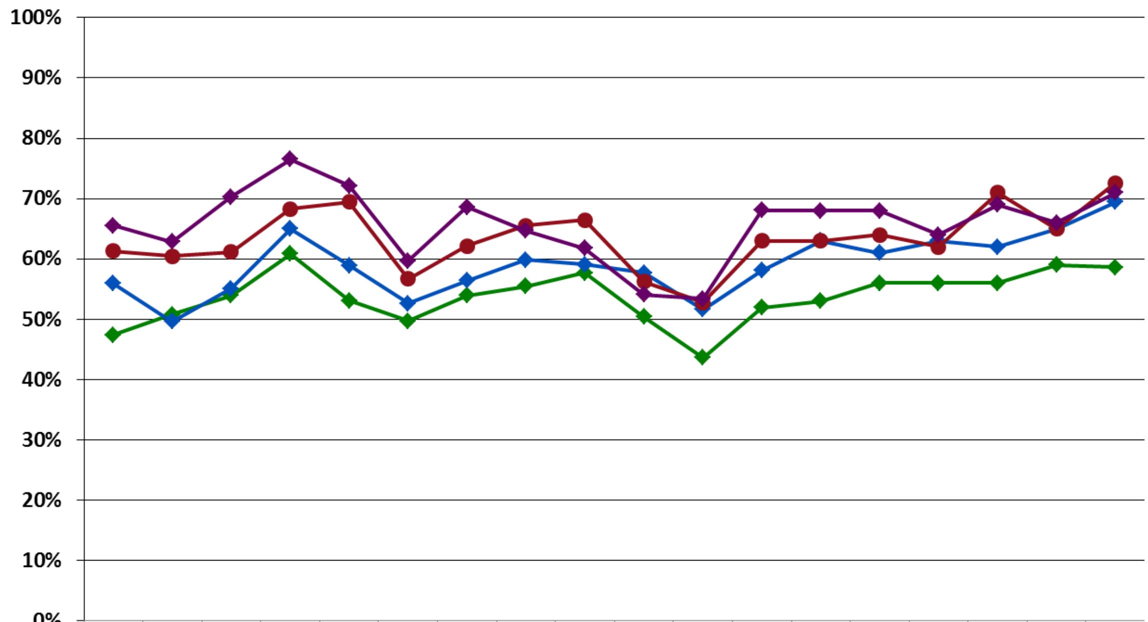
Expected Employment Change by Industry



Regionally, optimism in the Northeast increased from 61% to 68% and the Midwest, which improved from 55% to 60% in the second quarter made another jump to 66% optimistic in the third quarter. The South and the West were both relatively constant in terms of the number of respondents who are optimistic about the prospects for their organization.

As noted above, more than two-thirds of companies have expansion plans this quarter; 55% indicate they plan to expand “at least a little”, while 13% plan to expand “a lot.” While there continues to be fewer companies in the segment having revenues less than $10 million with expansion plans, this group did hold constant at 59% this quarter. In each of the segments of larger companies, the percentage with expansion plans now approach or exceed 70%.

Expansion Plans by Business Size



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

Liquidity

Liquidity and capital plans essentially unchanged; credit continues to be more challenging for small companies

The proportion of companies indicating they have about the right amount of liquidity declined slightly in the second quarter from 49% to 47%. The percentage indicating they have more liquidity than they need and plan to deploy their excess recovered slightly from 12% to 15%. Those with excess liquidity who remain reluctant to deploy their excess remained consistent at 19%.

The percentage of companies planning to raise capital also remained consistent at 11%. The number of companies that need capital but find credit availability and/or pricing to be a barrier declined another point from 9% to 8%.

Overall, most executives (56%) expect financing challenges to be about the same as last quarter. The number of respondents expecting it to be more difficult to obtain their necessary financing declined another point from 9% to 8%, while those who expect it to be less difficult remained consistent at 9%.

From a size perspective, 11% of companies with less than $10 million in revenues expect availability and/or pricing to be a barrier while only 4% of companies with revenues greater than $1 billion face this challenge, unchanged from last quarter.

Top Challenges

Employee costs and turnover ease; domestic and global economic challenges seen as more pressing

Regulatory requirements/challenges continue to hold the top spot in terms of challenges facing organizations. Concern about domestic economic conditions bounced back to the number two spot this quarter, while employee and benefit costs eased from the number two spot to number four.

Availability of skilled personnel continued to hold as the third most pressing challenge. Domestic competition and domestic political leadership also maintained the rankings at the fifth and sixth-ranked challenges.

As noted above, staff turnover fell out of the "top ten" ranking this quarter, while global economic conditions resurfaced strongly this quarter, presenting as the sixth ranking challenge facing organizations.

Rounding out the top challenges this quarter are developing new products/services/markets, stagnant/declining markets, and materials/supplies/equipment costs.

Top Challenges Facing Organizations

	3Q13	4Q13	1Q14	2Q14	3Q 14
1	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes
2	Domestic economic conditions	Employee and benefits costs	Employee and benefits costs	Employee and benefits costs	Domestic economic conditions
3	Employee and benefits costs	Domestic economic conditions	Domestic economic conditions	Availability of skilled personnel	Availability of skilled personnel
4	Domestic competition	Domestic political leadership	Availability of skilled personnel	Domestic economic conditions	Employee and benefits costs
5	Domestic political leadership	Domestic competition	Domestic competition	Domestic competition	Domestic competition
6	Availability of skilled personnel	Availability of skilled personnel	Domestic political leadership	Domestic political leadership	Domestic political leadership
7	Developing new products/services/markets	Stagnant/declining markets	Developing new products/services/markets	Developing new products/services/markets	Global economic conditions
8	Stagnant/declining markets	Developing new products/services/markets	Stagnant/declining markets	Stagnant/declining markets	Developing new products/services/markets
9	Changing customer preferences	Changing customer preferences	Changing customer preferences	Changing customer preferences	Stagnant/declining markets
10	Global economic conditions	Materials/supplies/equipment costs	Materials/supplies/equipment costs	Staff turnover	Materials/supplies/equipment costs

Survey Background

The survey was conducted of AICPA Business & Industry members between August 6 and August 26, 2014. CFOs comprised 49% of the respondents, 23% were Controllers, 11% were CEOs or Presidents, 7% were VPs, 3% were COOs; the remainder were Directors or other executives. Seventy-one percent of respondents came from privately-owned entities, 14% from publicly-listed companies, 13% from not-for-profits, 1% from government and 1% from other. Nine percent came from organizations with annual revenues of $1 billion or more, 23% from organizations with $100 million to under $1 billion in annual revenues, 48% from organizations with $10 million to $100 million and 20% from organizations with under $10 million in revenues (numbers may add to more than 100% due to rounding).