



AICPA

Business and Industry

Economic Outlook Survey

Detailed Survey Results — 3Q 2014

Survey Background

- **Conducted between Aug 6 – Aug 26, 2014**
- **Quarterly Survey**
- **CPA decision makers (primarily CFOs, CEOs and Controllers)**
- **AICPA members in Business & Industry only**
- **1,110 qualified responses**

Survey Highlights

■ CPA Outlook Index improves in all components

- Overall index increased to 74
- US economy optimism index component increased 2 points to 69, marking the third straight quarter of increased optimism
- The organization optimism index improved from 75 to 78 and the expansion index from 76 to 79 in Q3

■ Improvement continues in key indicators

- Indexes for revenue, profit, and employment all jumped 5 points to 82, 74 and 70, respectively.
- Spending plans also continued their upward trends

■ Optimism, expansion and hiring improves in many sectors

- Professional, scientific and technical services and the Healthcare – other sector showed significant improvements in optimism and hiring
- Smaller companies maintained their improved level of optimism at 59% while the larger company segments approached or exceeded 70% optimistic
- Manufacturing, along with both retail and wholesale trade also showed improvements in optimism; construction, real estate and the finance and insurance sectors remained relatively constant

CPA Outlook Index (CPAOI)

CPA Outlook Index

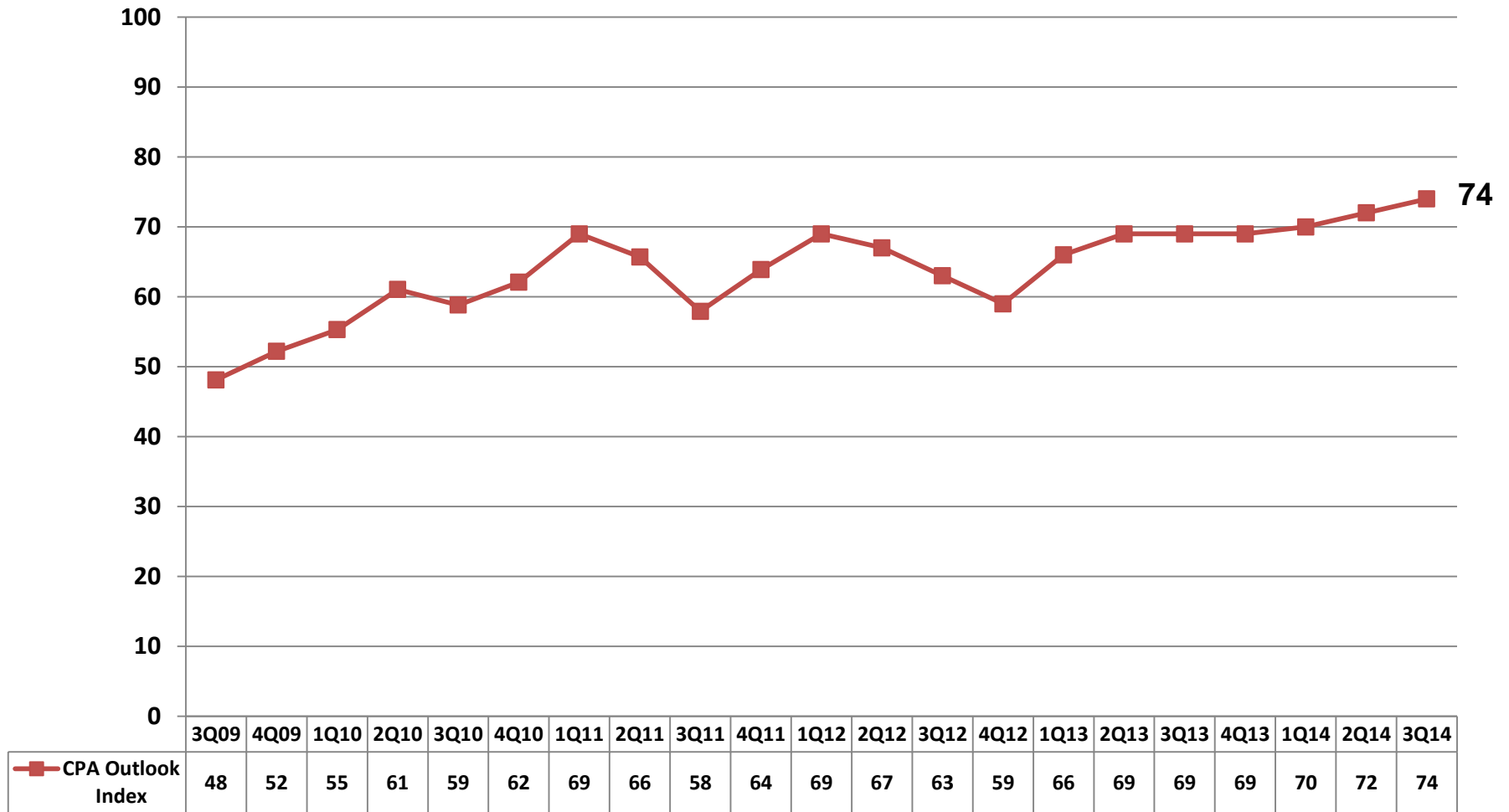
The CPA Outlook Index is a robust measure of sentiment about the U.S. economy that is supported by the unique insight and knowledge that CEOs, CFOs, Controllers, and other CPA executives have about the prospects for their own organizations, their expectations for revenues and profits, and their plans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

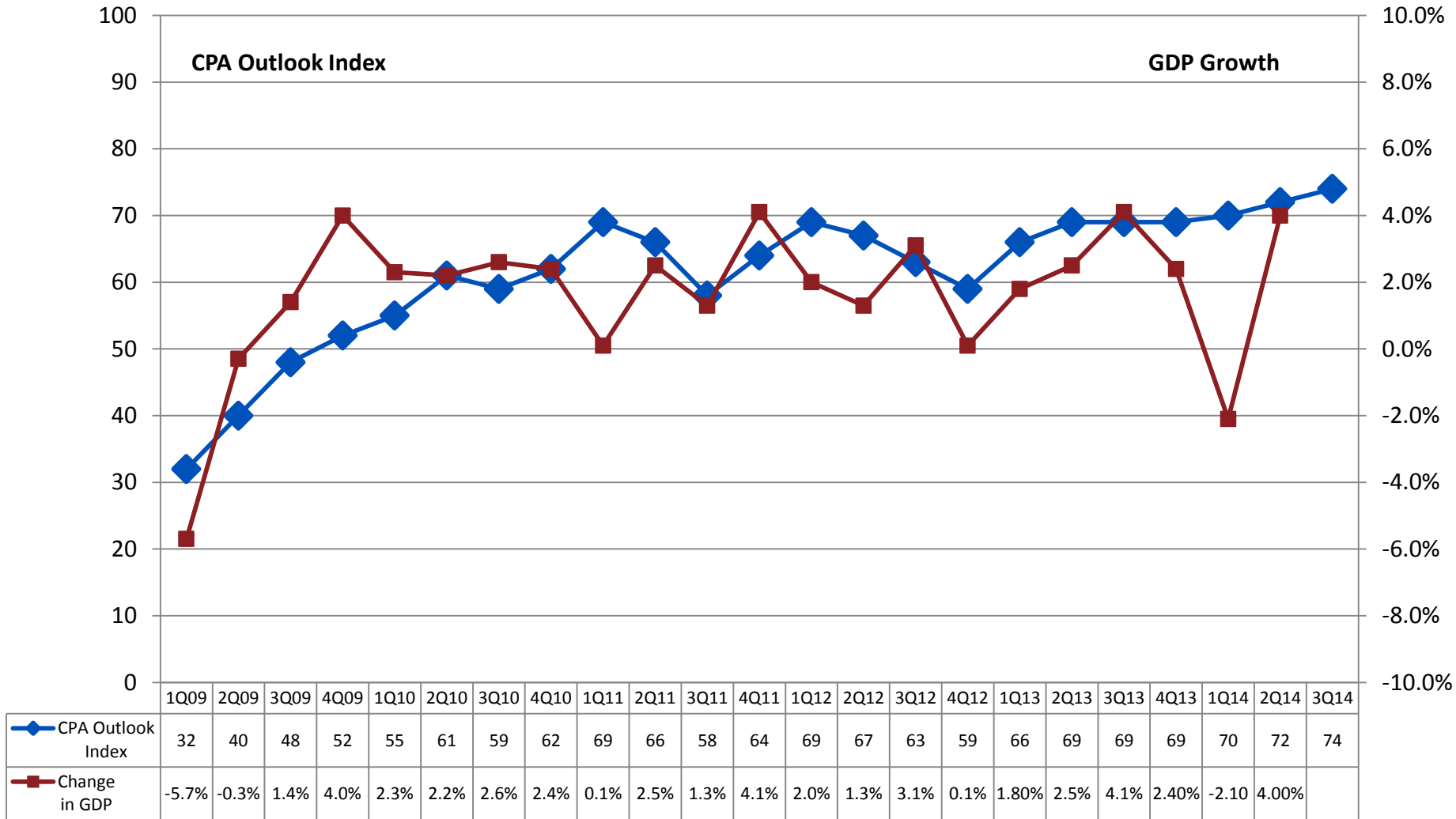
CPA Outlook Index (CPOAI)



CPA Outlook Index Component Indicators

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

CPA Outlook Index (CPAOI) vs GDP



U.S. & Organization Outlook

Outlook for the U.S. and Organizations

■ Optimism for the U.S. Economy continues to trend upward

- The percentage of executives optimistic about the US Economy increased from 51% in Q2 2014 to 52% in Q3 2014
- Improved prospects in the real estate market and declining unemployment were cited by the optimists
- Lingering concerns about leadership/politics and continuing concern regarding global affairs were cited by those who are neutral or pessimistic

■ Organizational optimism and expansion plans jump

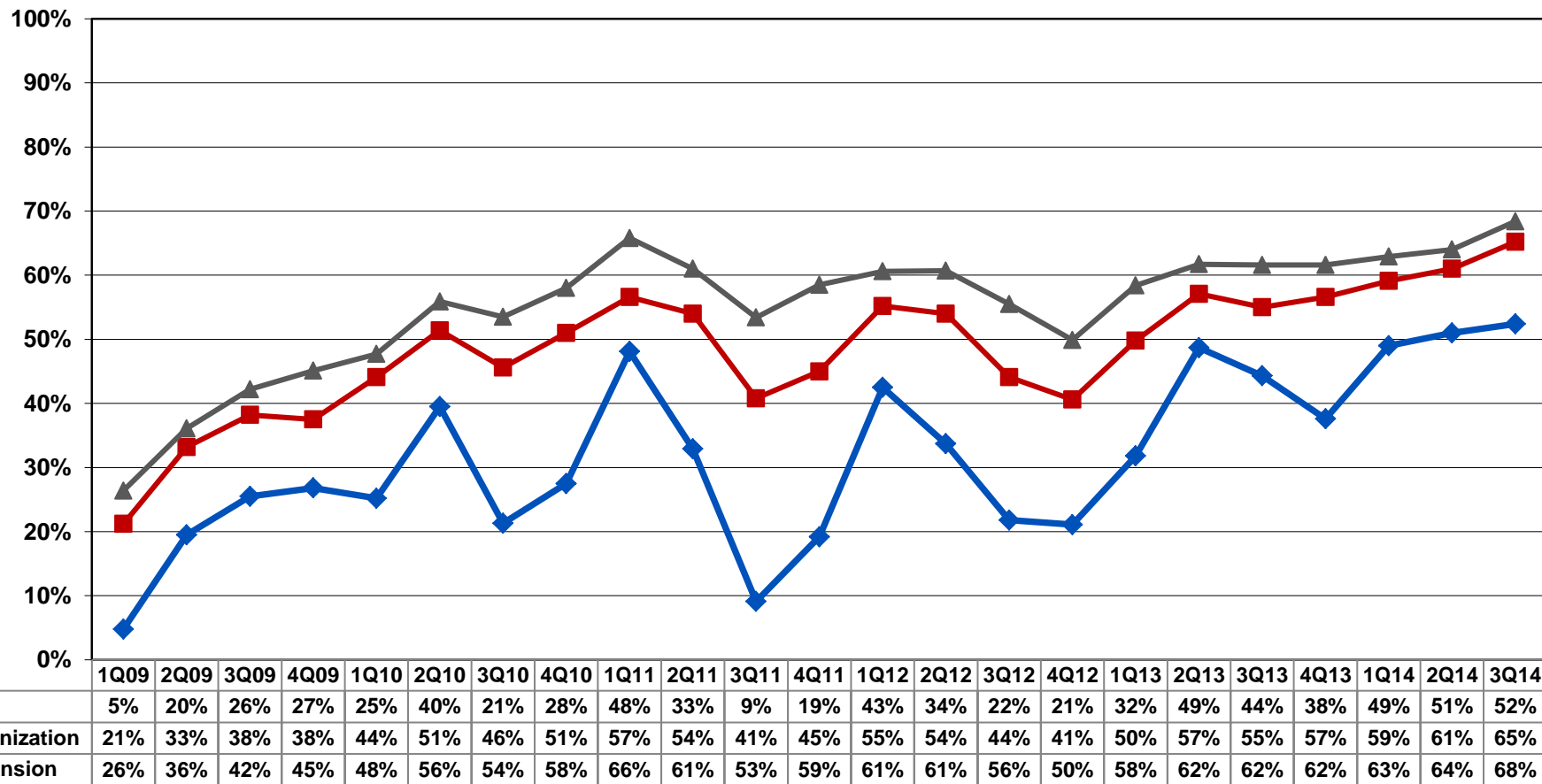
- Optimism about own company prospects increased from 61% in Q2 to 65% in Q3
- The number of companies expecting their business to expand increased from 64% to 68%

■ Inflation concerns increase slightly

- 38% are concerned about inflation
- Labor costs continue to be the most pressing concern for 30% of respondents
- Concern about interest rates rose this quarter from 17% to 25%

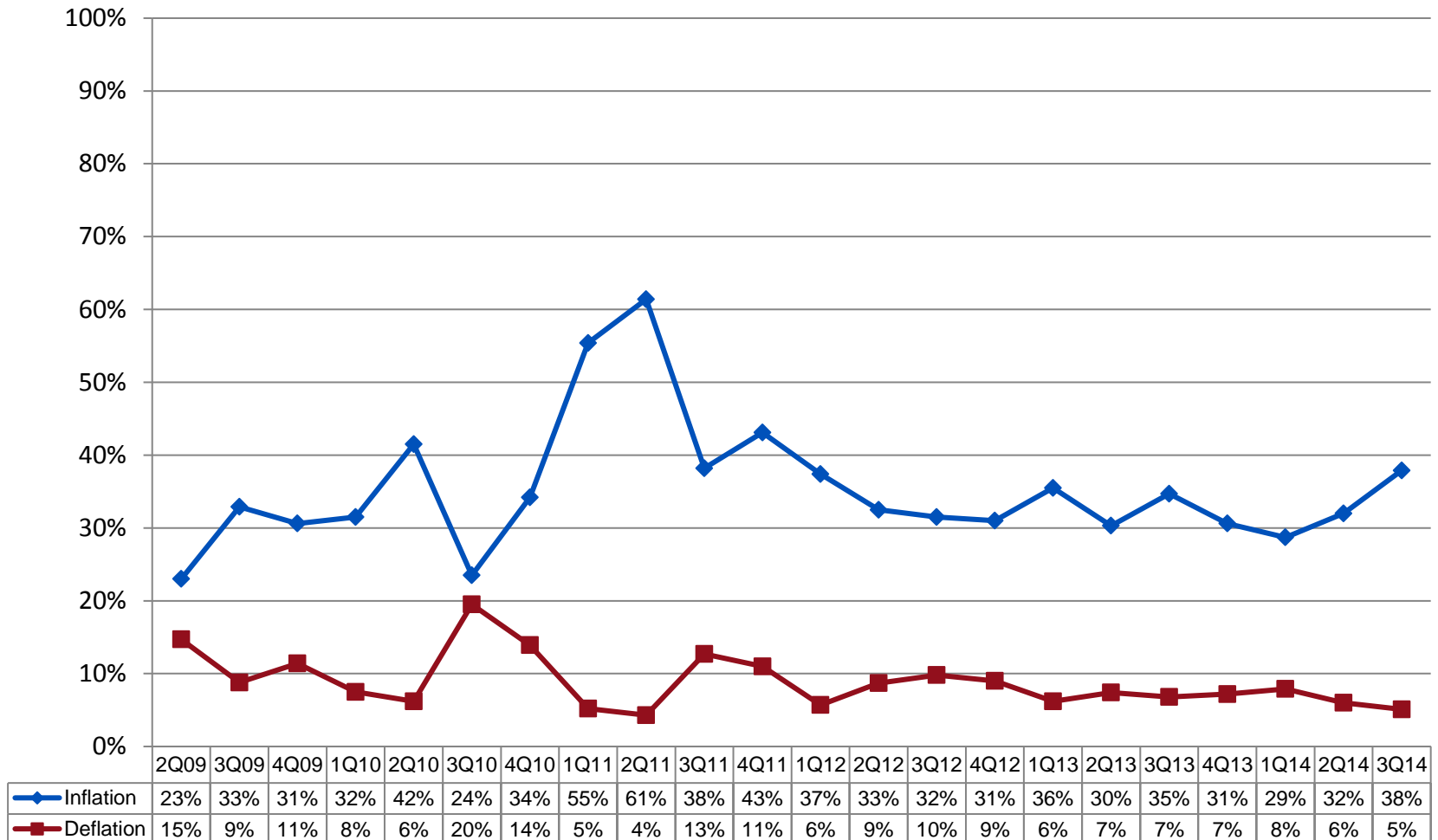
Optimism & Expansion

US, Organization, Expansion



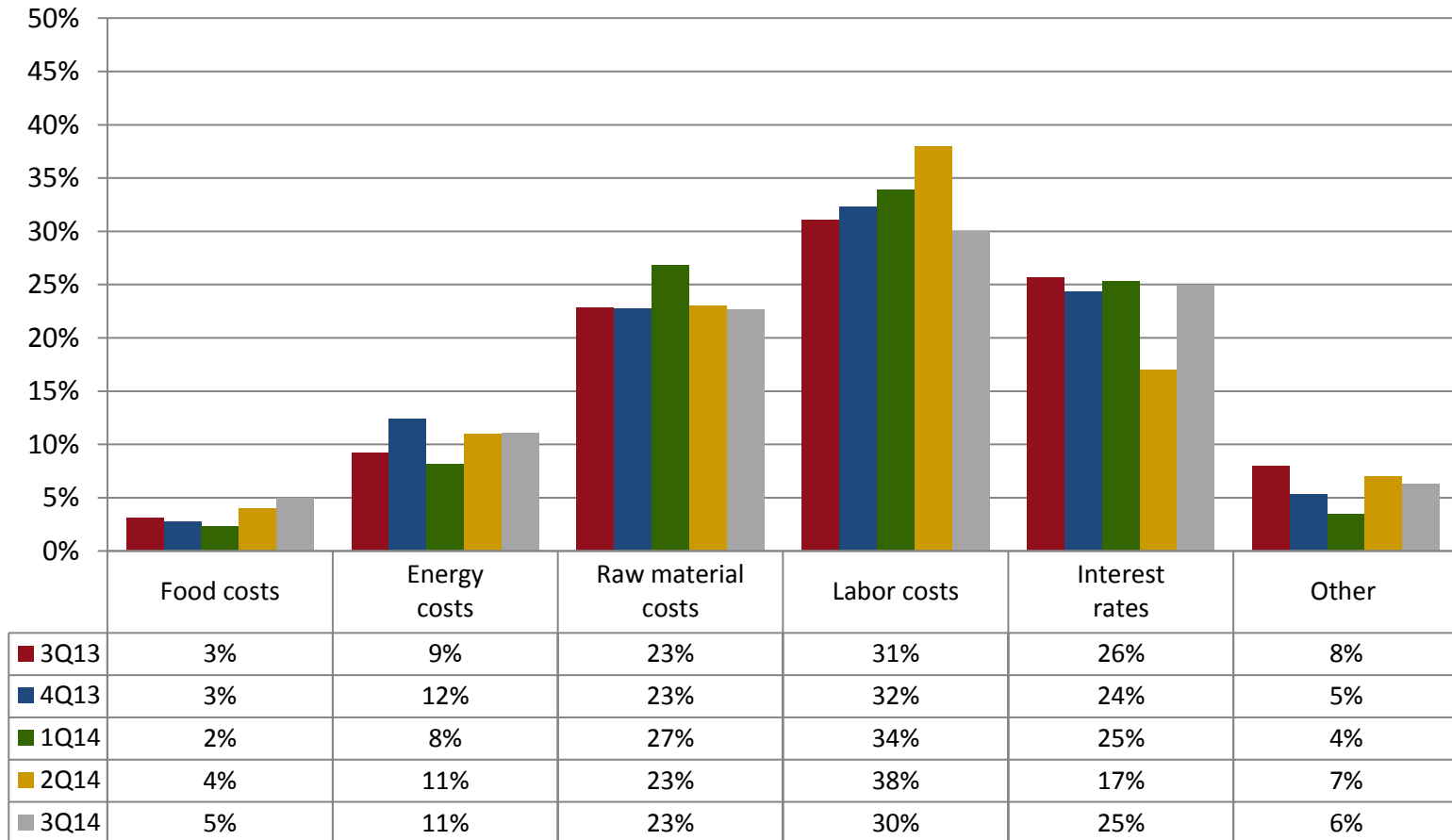
For your business, are you more concerned about inflation or deflation?

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



Inflationary Risks and Costs

Inflationary Factor Representing the Most Significant Risk to your Business



Key Performance Indicators

Key Performance Indicators

■ Outlooks for revenue and profit improve

- Expected revenue increase rises from 3.8% to 4.4%; expected profit increase jumps from 2.9% to 3.6%

■ Headcount plans improve; healthcare cost expectations increase

- Headcounts are now expected to increase by 1.8% over the next year as compared to a projected increase of 1.3% in the 2Q 2014 survey
- Expected increases in salary and benefit costs rise from 2.1% in Q2 to 2.4% in Q3
- Anticipated healthcare cost increases rises from 5.7% to 6.6%
- Expected “other input prices” continue to outpace expected ability to increase “prices charged” 2.3% to 1.7%

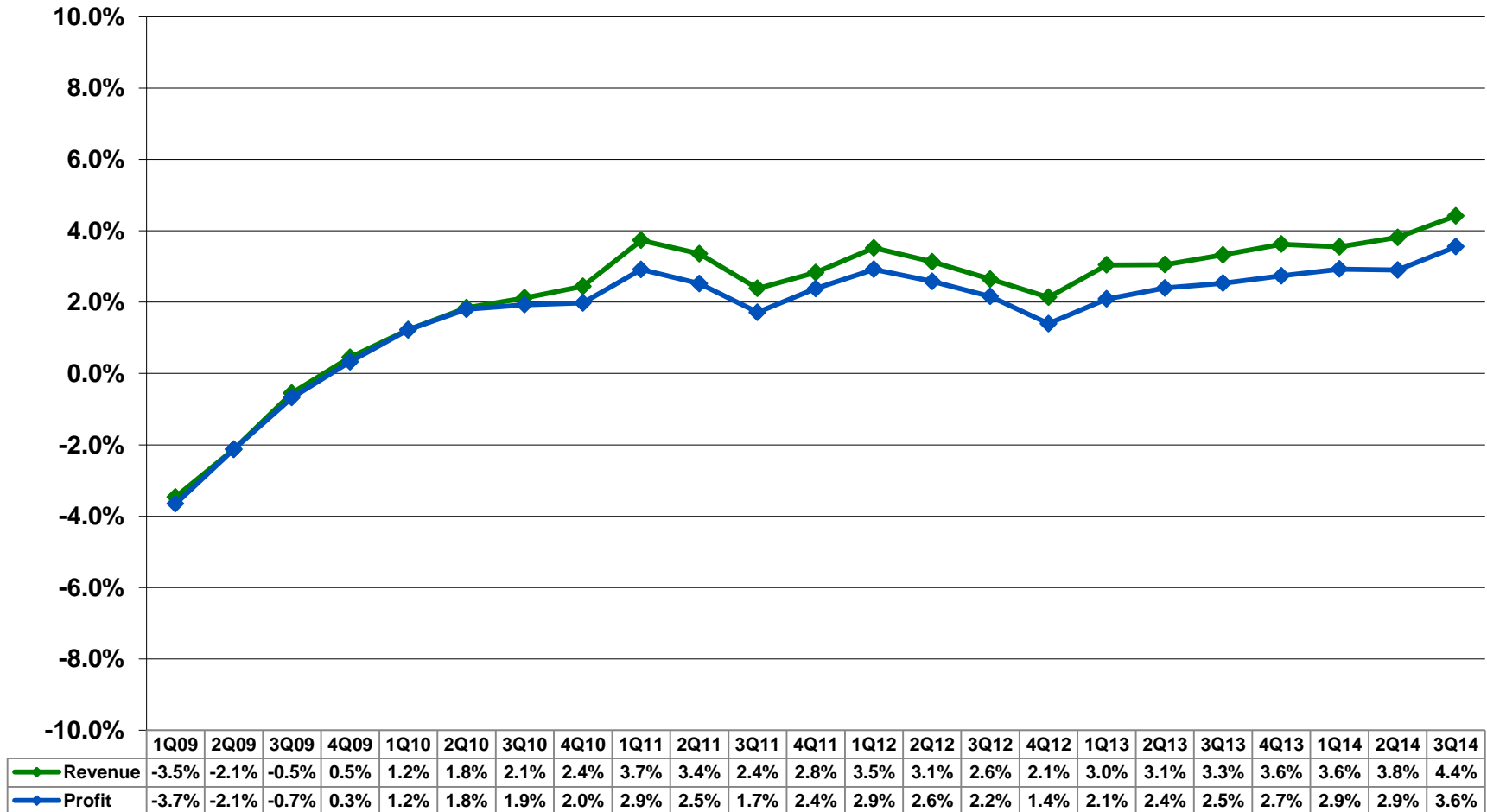
■ Key spending plans continue to be strong

- Increased spending for IT continues to be the strongest category of spending, rising to a new post-recession high of 3.3%
- Other capital spending jumped to a new high rate of 2.9%
- Expected increase in training spending also improved to a new high rate of 2.0%
- Marketing spending remained constant at 1.6%: R&D spending increased to 1.2%, the highest level since Q1 2012

Key Performance Indicators

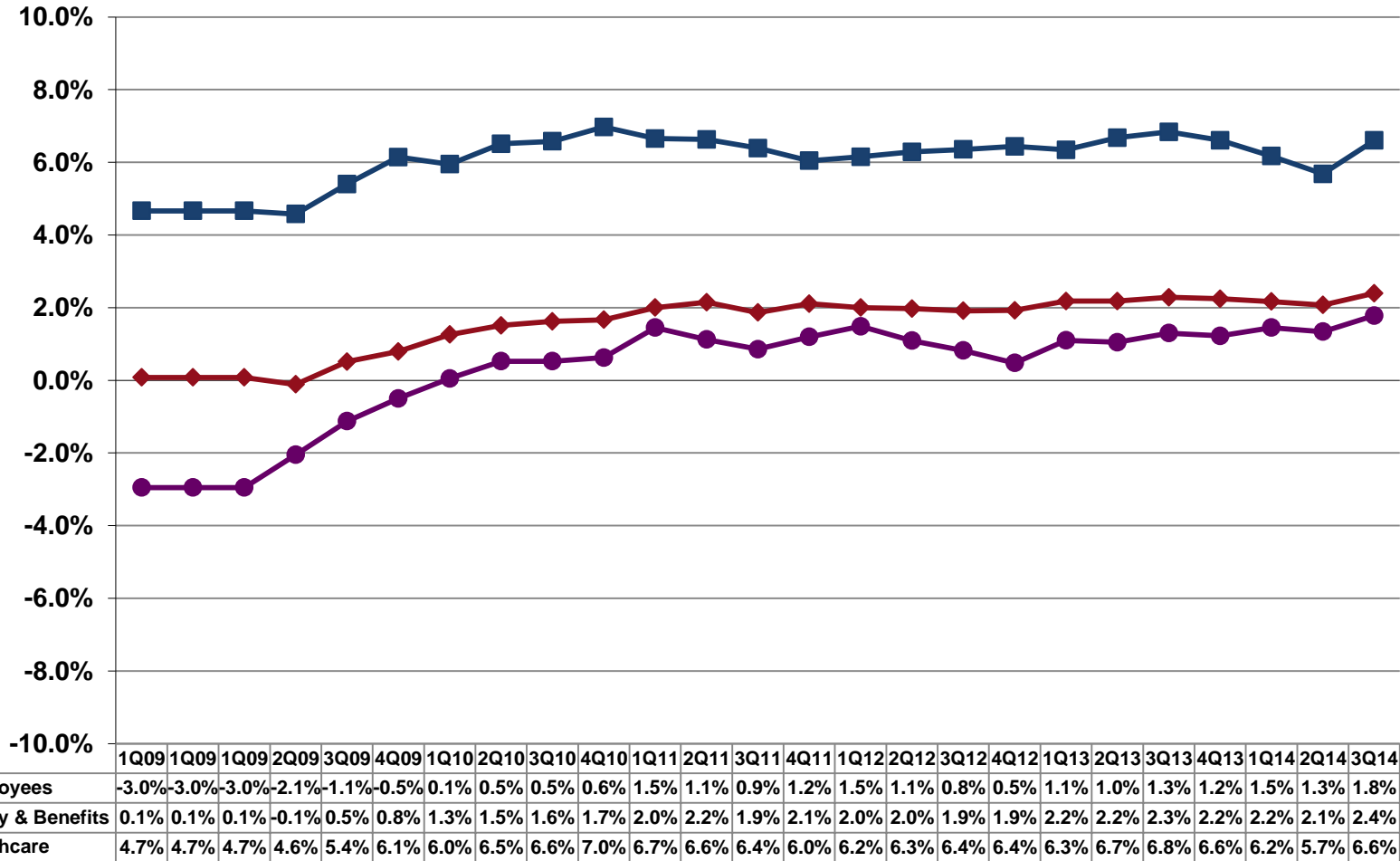
Expected Growth in Revenue and Profits

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



Employees, Salary & Benefits and Healthcare Costs

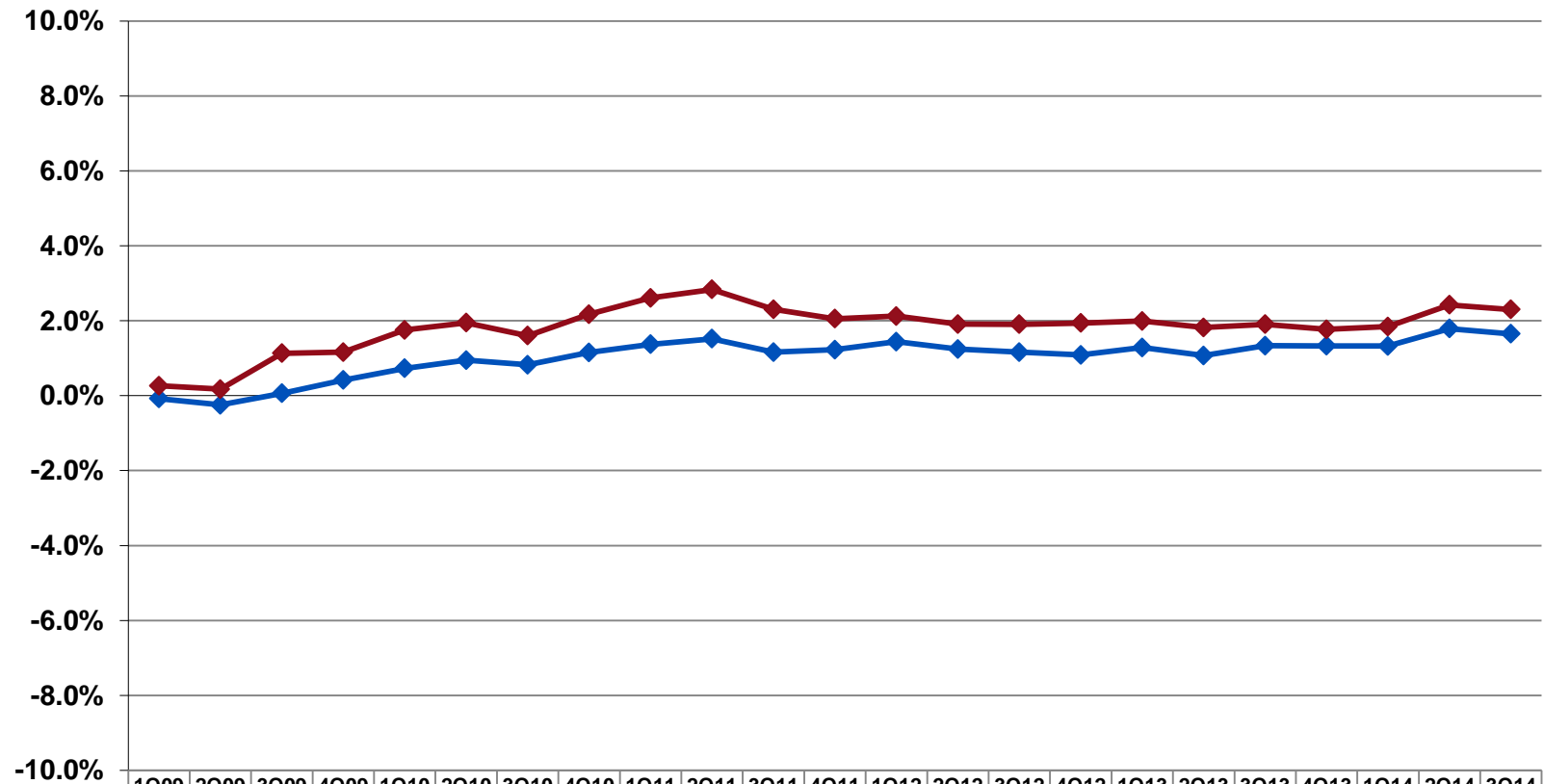
Thinking about the coming 12 months, please comment on the probable change for your organization ...



Pricing & Other Costs

Average Change Expected

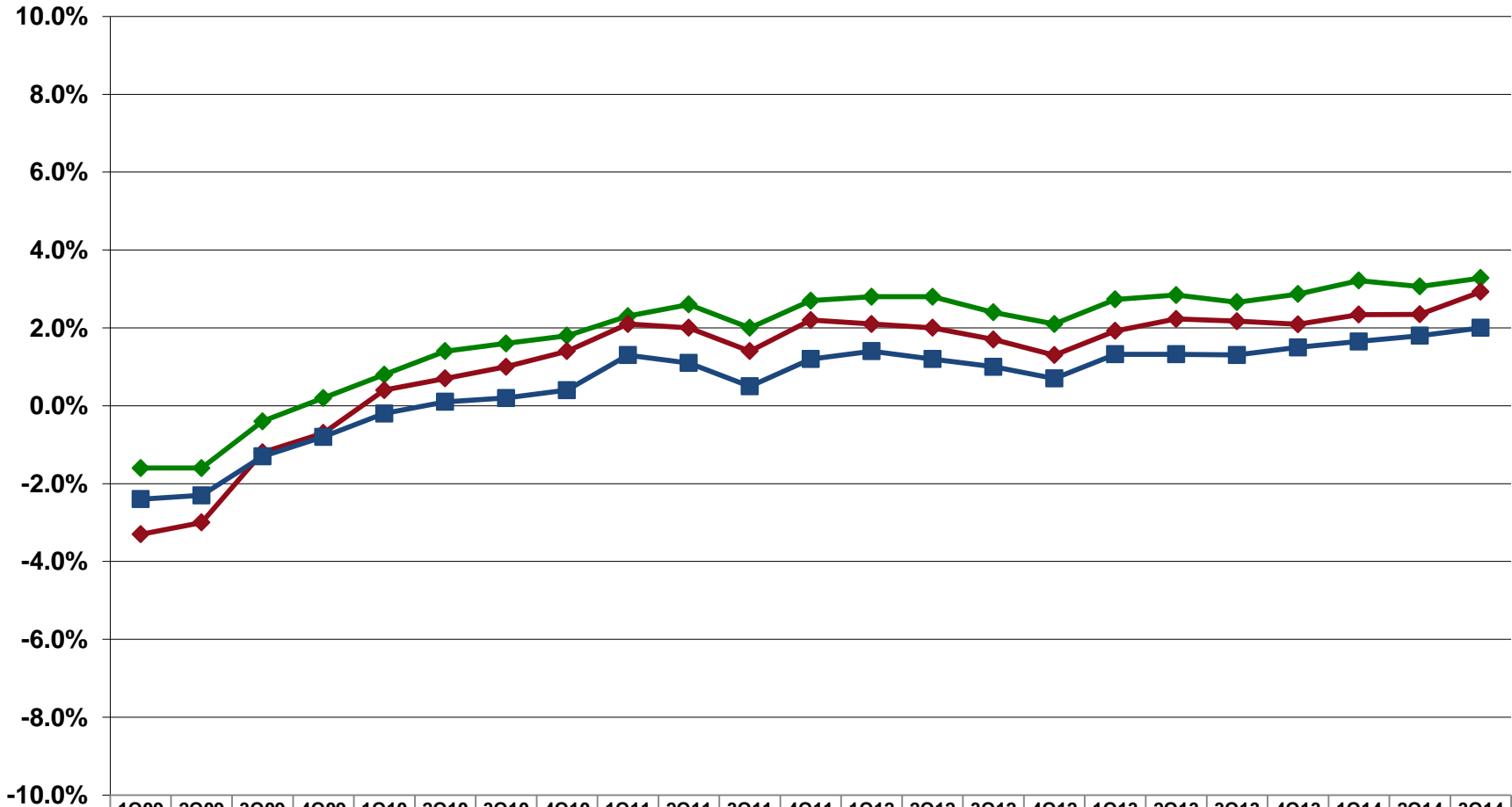
Thinking about the coming 12 months, please comment on the probable change for your organization ...



Prices Charged	-0.1%	-0.2%	0.1%	0.4%	0.7%	0.9%	0.8%	1.2%	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%	1.3%	1.8%	1.7%
Input Prices	0.3%	0.2%	1.1%	1.2%	1.8%	1.9%	1.6%	2.2%	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%	

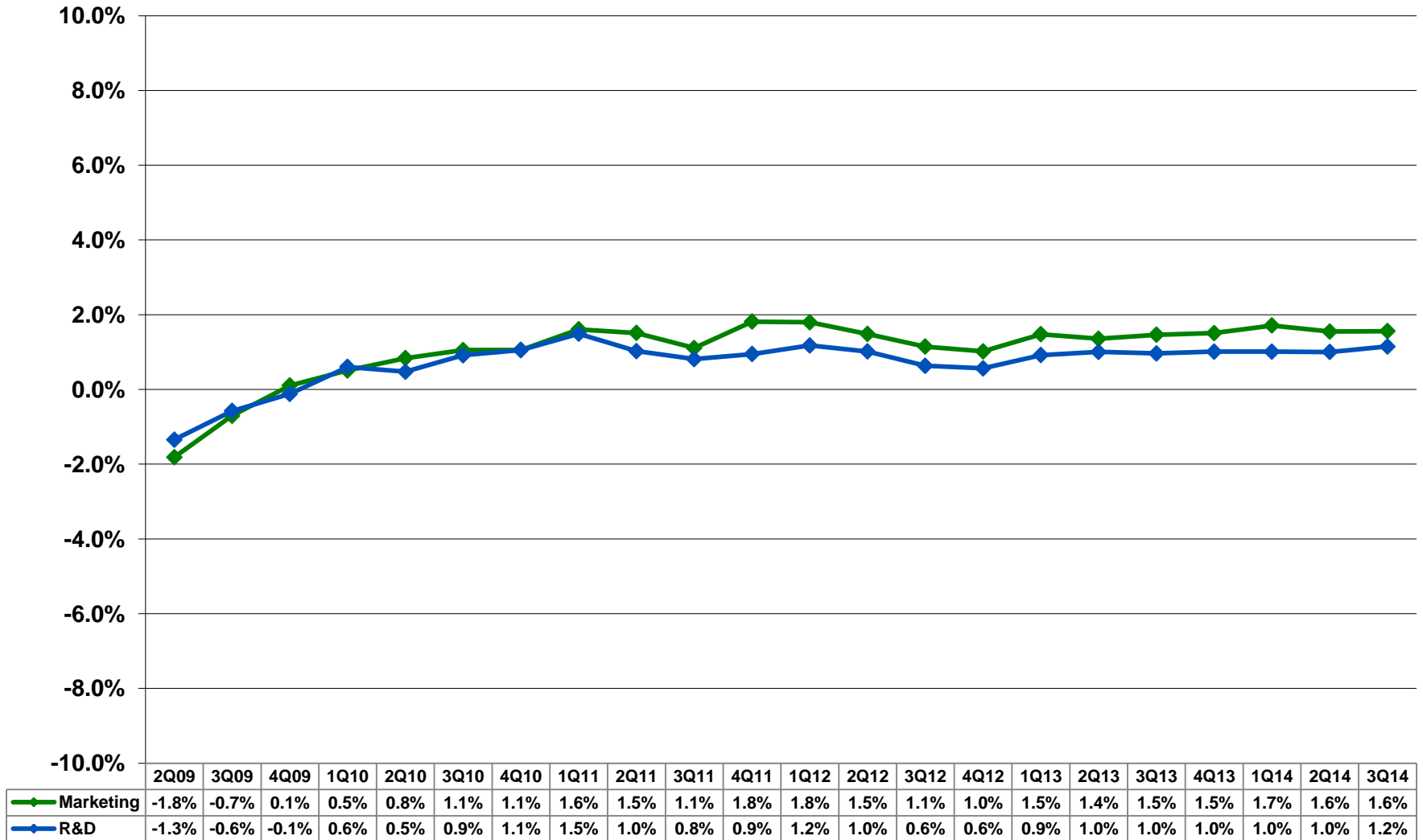
Spending Plans IT, Other Capital & Training

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



Spending Plans Marketing & R&D

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



Hiring Plans

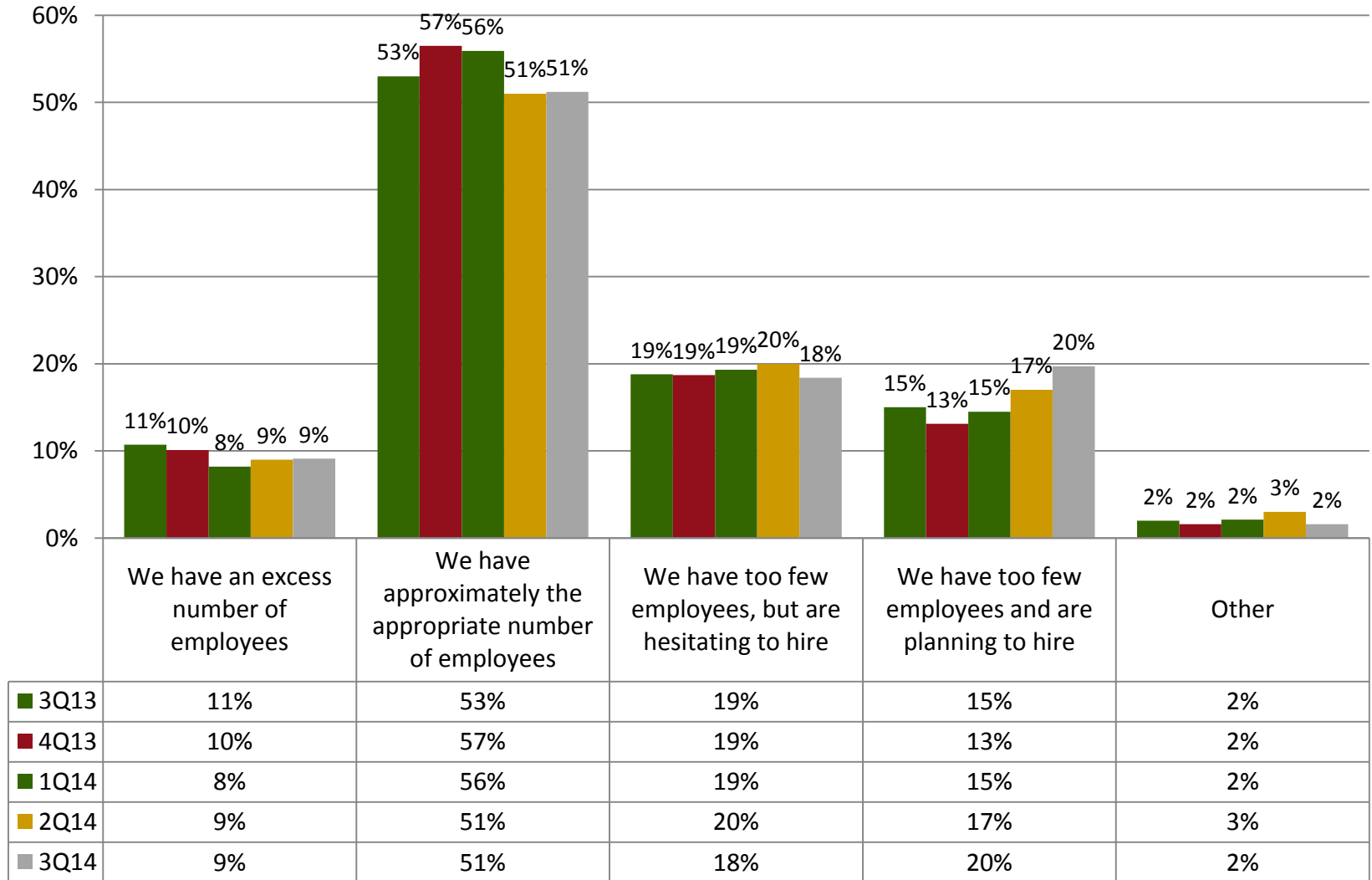
Hiring Plans

■ Hiring plans change little in Q3 2014

- 51% of all companies say they have the appropriate number of employees, which is the same percent from Q2
- The number of companies with too many employees is also unchanged at 9%
- Roughly a third (38%) have too few employees
 - The percentage of companies reluctant to hire decreased 2 points from 20% in Q2 to 18% in Q3
 - The number of companies planning to hire new employees increased from 17% in Q2 to 20% in Q3

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)?



Liquidity

Liquidity

■ Liquidity and capital plans essentially unchanged

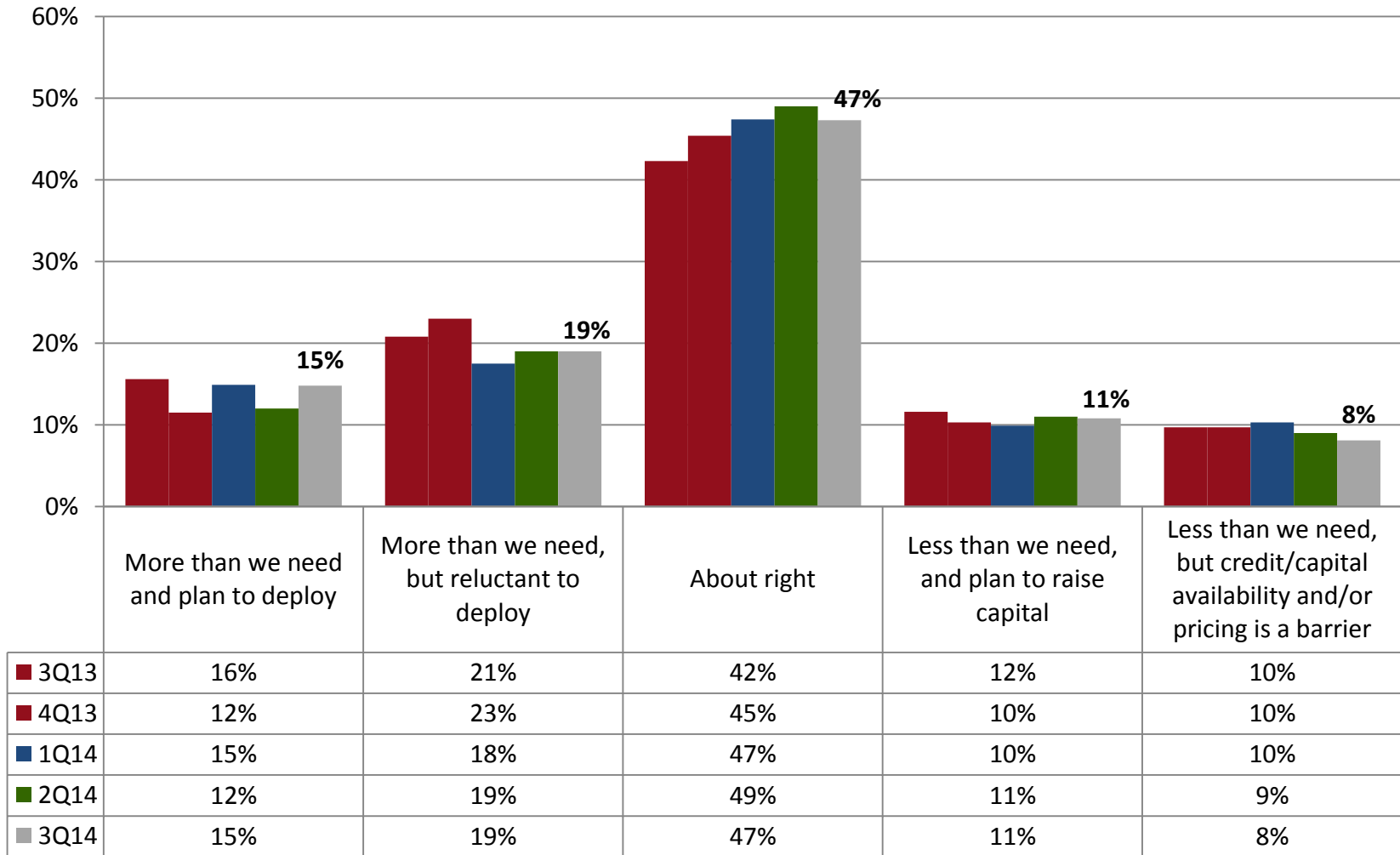
- The number of companies indicating they had about the right amount of liquidity declined slightly from 49% in 2Q 2014 to 47% in 3Q
- The number indicating they had more than they needed and that are planning to deploy the excess increased from 12% to 14%
- The number indicating reluctance to deploy their excess remained constant at 19% after registering at 23% in Q4 2013

■ Credit availability continues to be more challenging for smaller businesses

- The number of companies planning to raise needed capital also remained constant at 11%
- Overall, the number of companies expecting it to be more difficult to get necessary financing fell back another point this quarter to 8%, also down from Q4 (12%)
- However, 11% of small businesses anticipate that obtaining credit will be more difficult in the next quarter; only 4% of the very large business also feel that way.

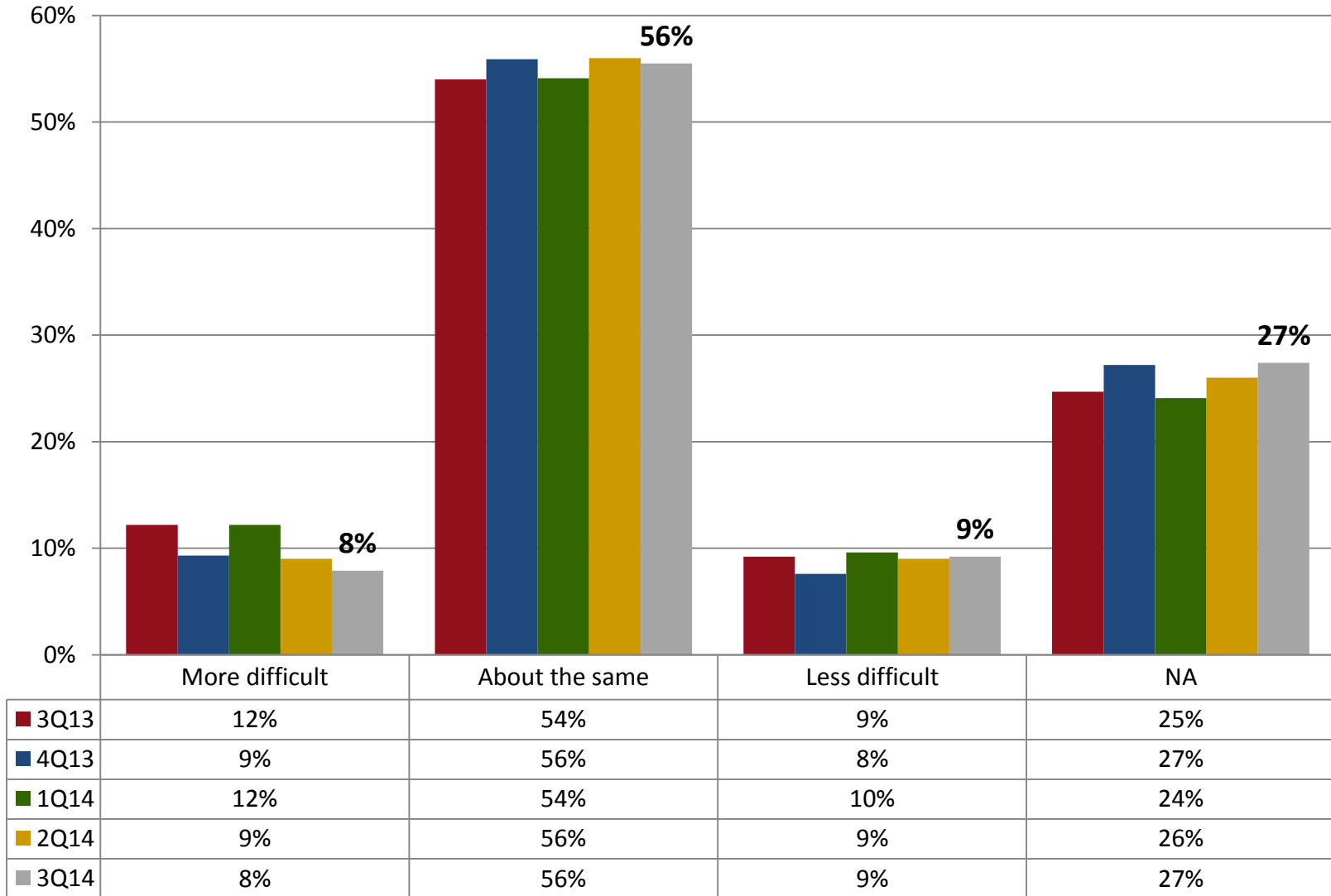
Cash & Liquidity Position

How would you characterize your organization's current liquidity position



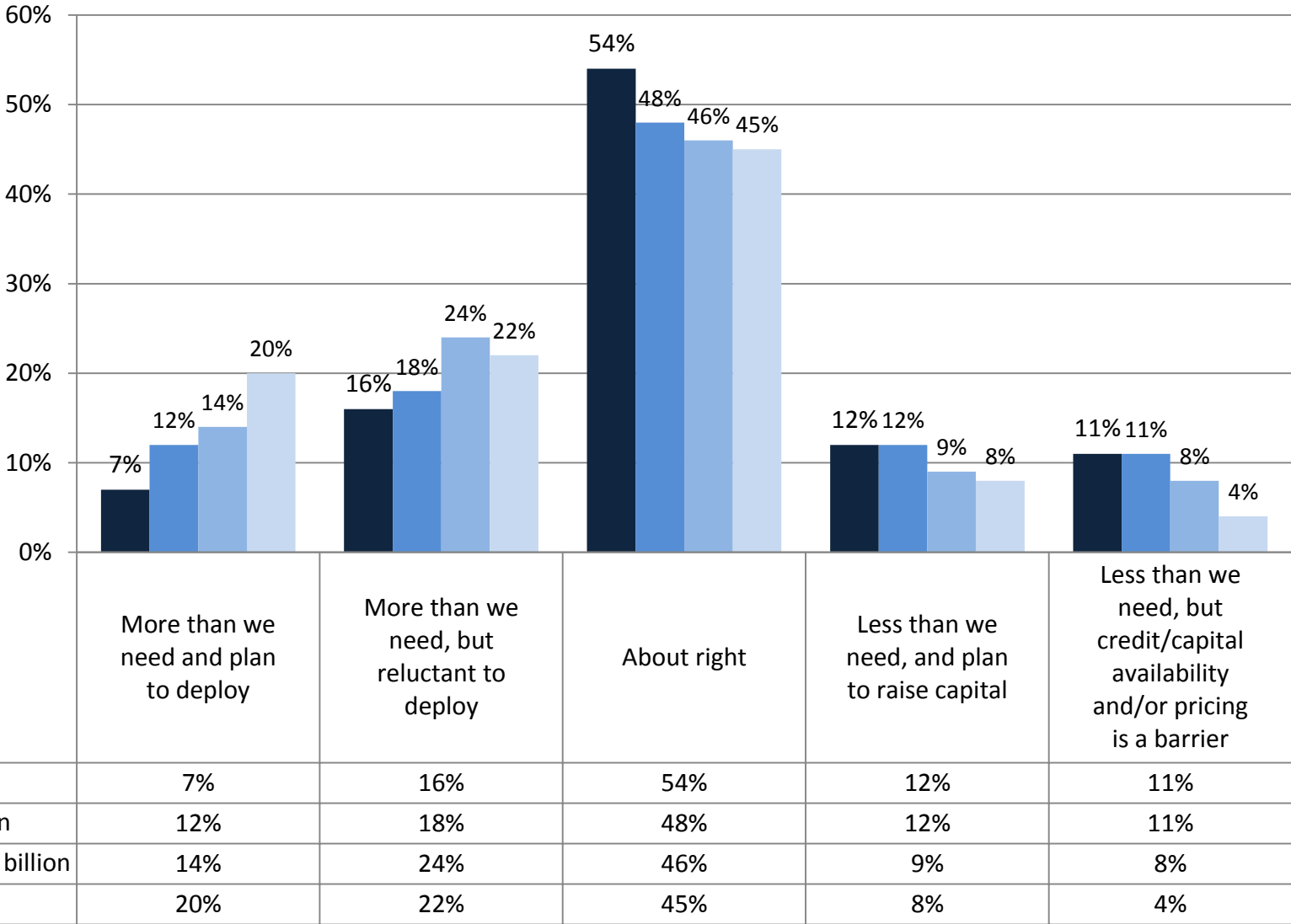
Difficulty Obtaining Required Financing

Do you expect it to be more or less difficult to obtain your required financing in the next quarter?



Small businesses have less cash and anticipate more problems obtaining it

How would characterize your organization's current liquidity position



Top Challenges

Top Challenges Facing Organizations

- **Regulatory requirements/changes maintains the number 1 rank**
- **Employee and benefits cost drops from the #2 spot in Q2 to the #4 spot in Q3**
- **Availability of skilled personnel holds from Q2 at #3**
- **Domestic economic conditions jumps two spots to the #2 position**
- **Global economic conditions, which had been absent from the top 10 chart since 3Q13, now ranks at #7**

Top Challenges for Organizations

Please indicate the top three challenges for your organization

	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

Outlook by

Industry, Region and Business Size

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

■ Optimism up overall, but mixed across sectors

- **Professional, Scientific and Technical Services** topped the charts in terms of optimism, increasing to 76% in Q3 from 64% optimistic in Q2; this optimism is also supported by plans for an increase in headcount of 4% over the coming year, up from a 2.6% projected increase last quarter
- **Healthcare – Other (pharmaceuticals, medical devices, etc.)** showed similar jumps:
 - sector optimism increased from 55% in Q2 to 71% in Q3
 - projected hiring also improved from a projected increase of 1.6% in Q2 to 3.6% in Q3
- **Manufacturing** also showed meaningful improvement in optimism increasing from 62% in Q2 to 72% in Q3; headcount is expected to increase by 2%, up from a 1.4% projected increase in Q2
- **Technology** optimism fell off sharply from 72% last quarter to 58%, paralleling a similar sharp decline in Q3 2013 to 56%; the technology hiring projection declined only modestly from 2.4% to 2.3%

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

■ Other Sectors

- **Retail trade** optimism improved from 62% to 67% and hiring also improved from a projected increase of 1.6% last quarter to 2.7% in Q3
- **Wholesale trade**, after lagging below 50% for the first two quarters of 2014, improved significantly in Q3 to 61%
- **Real Estate** (70%), **Construction** (69%) and **Finance and Insurance** (61%) showed minor fluctuations
- **Healthcare providers** continued to be the least optimistic, but did reach the 50% mark this quarter

■ Northeast and Midwest regions show strong improvement

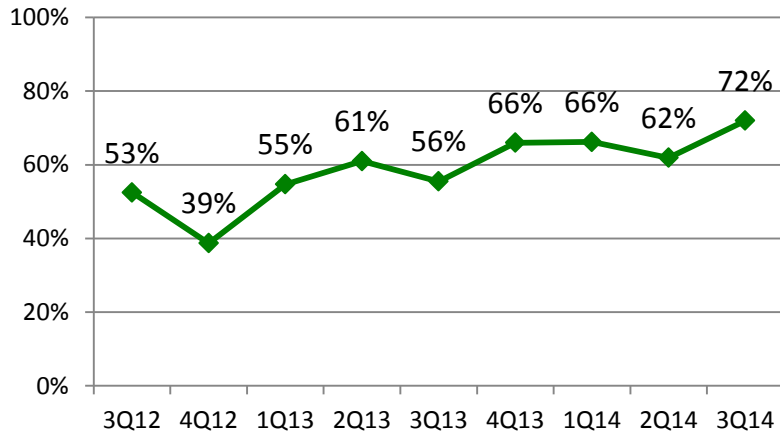
- Optimism increased from 61% to 68% in the **Northeast**
- The **Midwest**, which improved from 55% to 60% in Q2, made another jump from to 66% in Q3

■ Expansion plans maintain constant for smaller companies, improve for all others

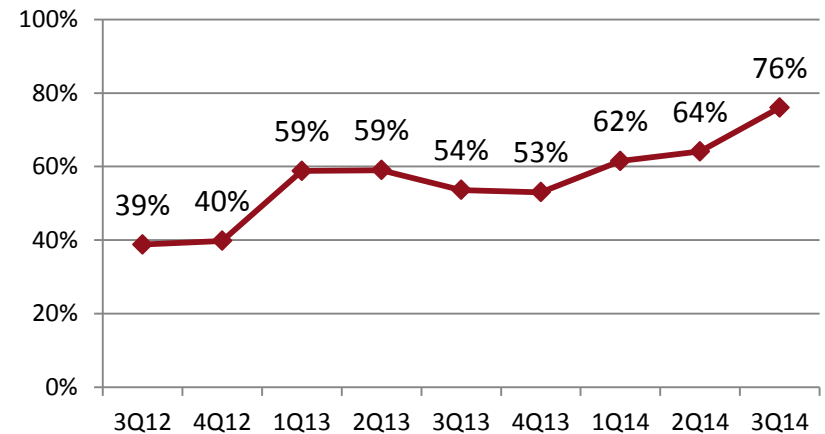
- The number of companies with revenues < \$10 million with plans to expand remained constant after improving to 59% in Q2
- The percentage of companies in each of the larger categories improved in Q3, approaching or exceeding 70% having plans to expand

Organization Optimism by Industry

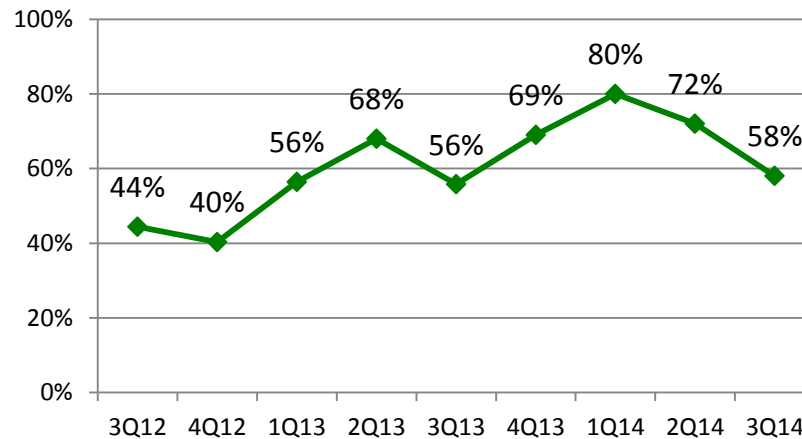
Manufacturing



Professional Service

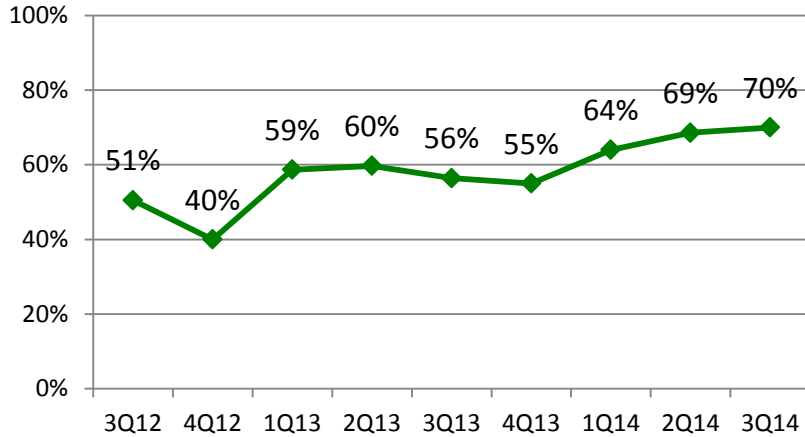


Technology

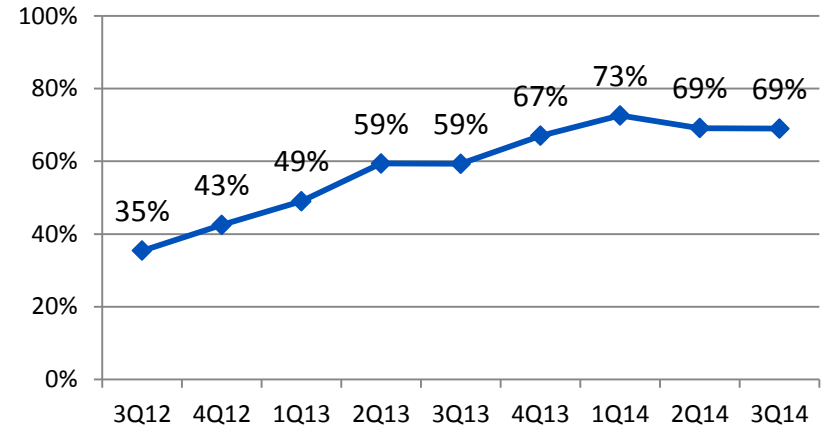


Organization Optimism by Industry

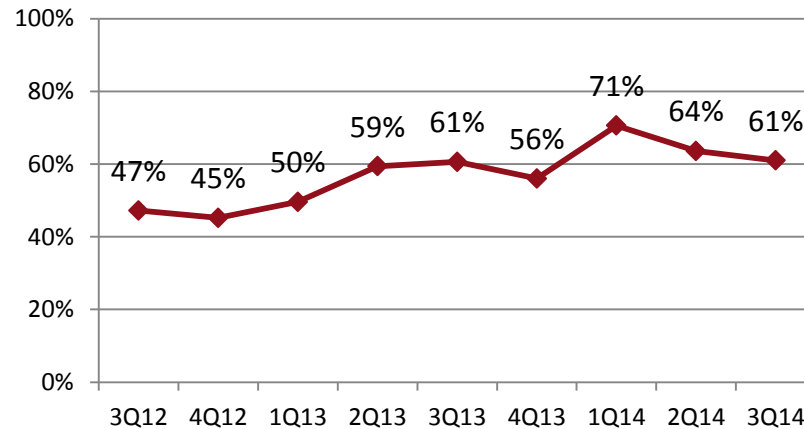
Real Estate



Construction

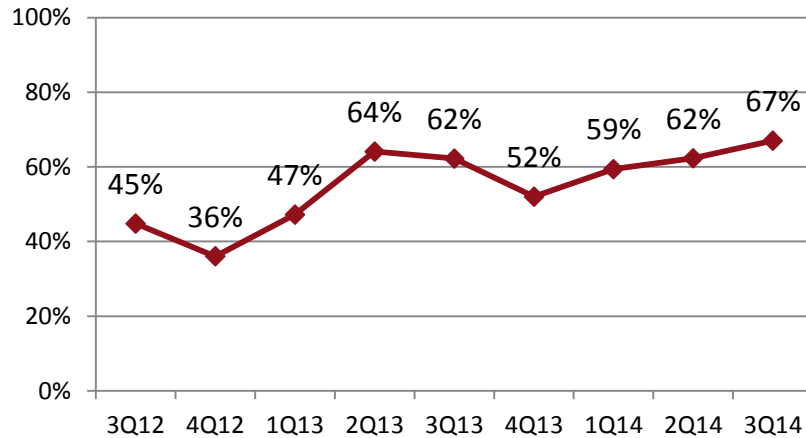


Finance & Insurance

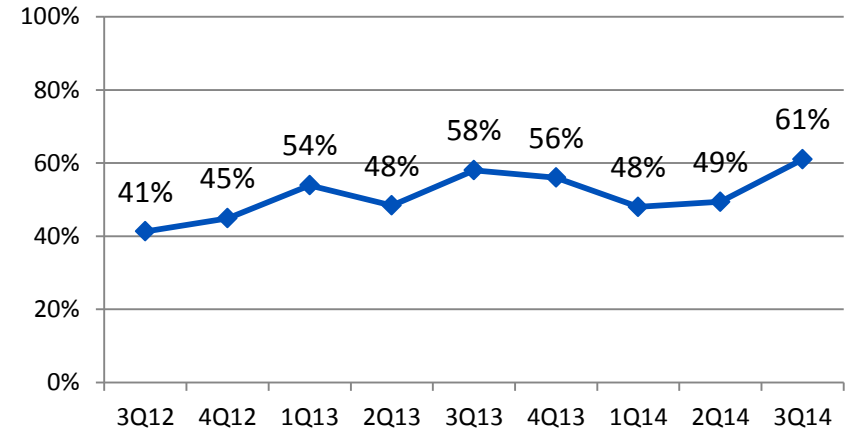


Organization Optimism by Industry

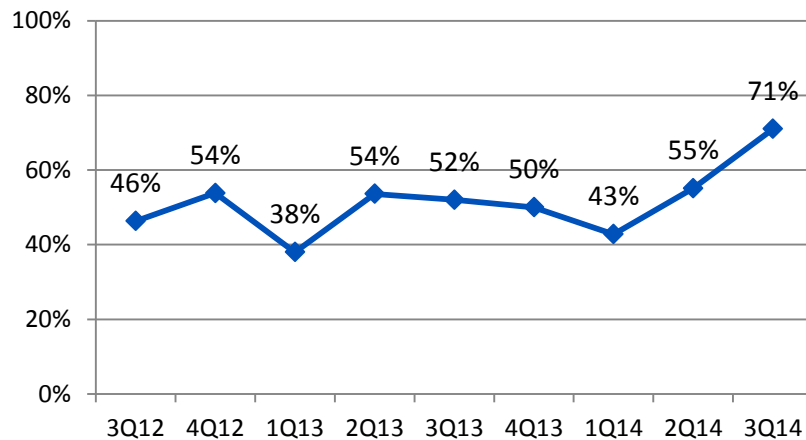
Retail Trade



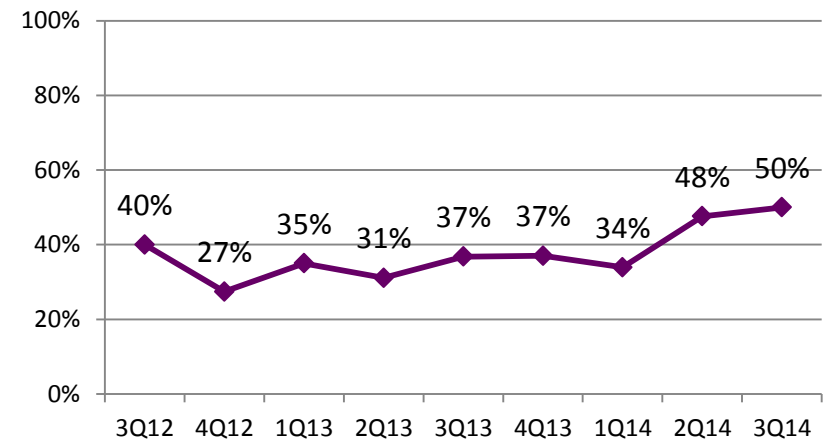
Wholesale Trade



Health Care Other

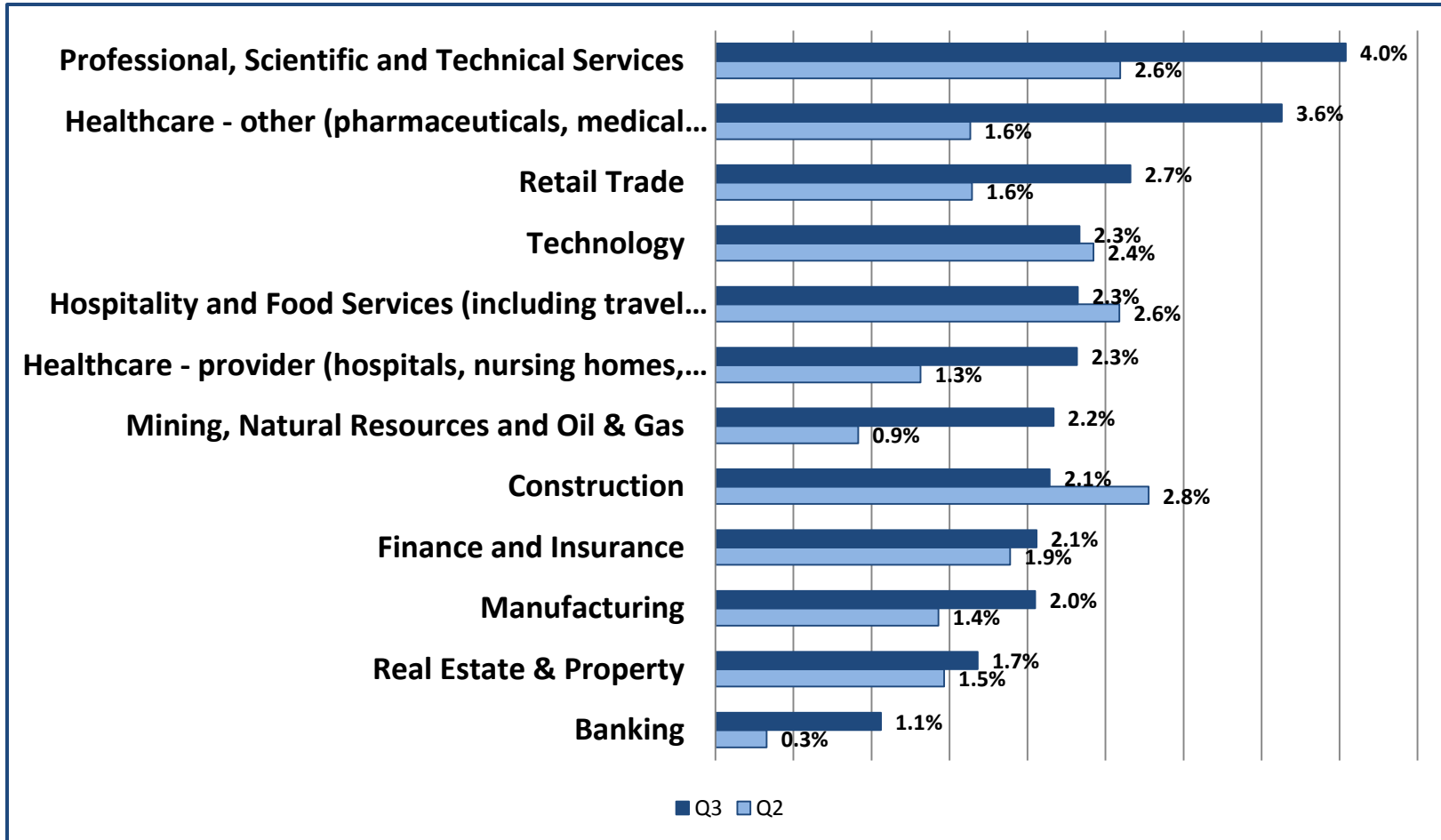


Health Care Provider



Expected Employment Change by industry

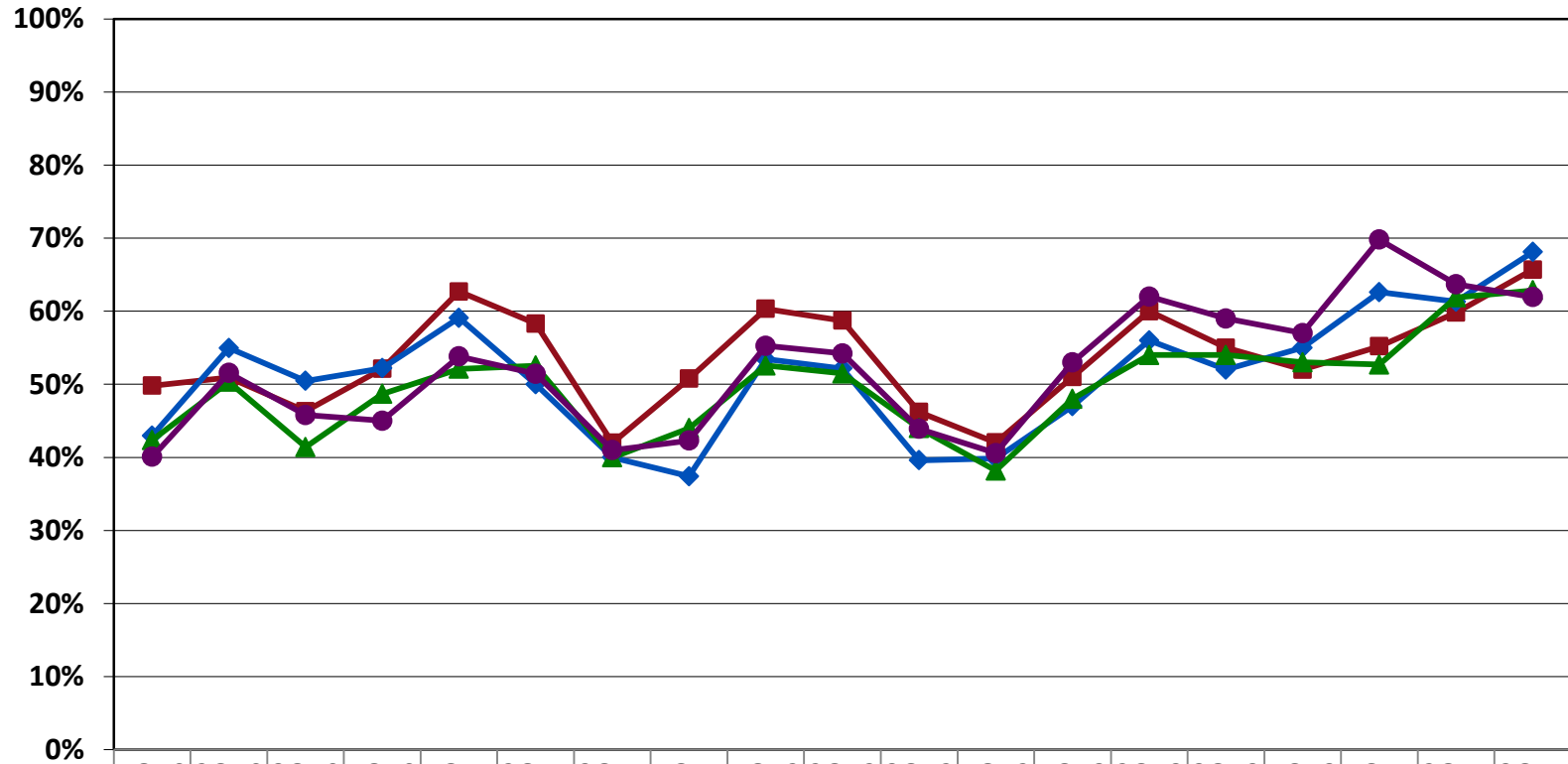
Thinking about the coming 12 months, please comment on the probable change for your organization for Number of Employees



Note: Certain calculations revised from Q2 to reflect modification to ranges used in query.

Organization Optimism by Region

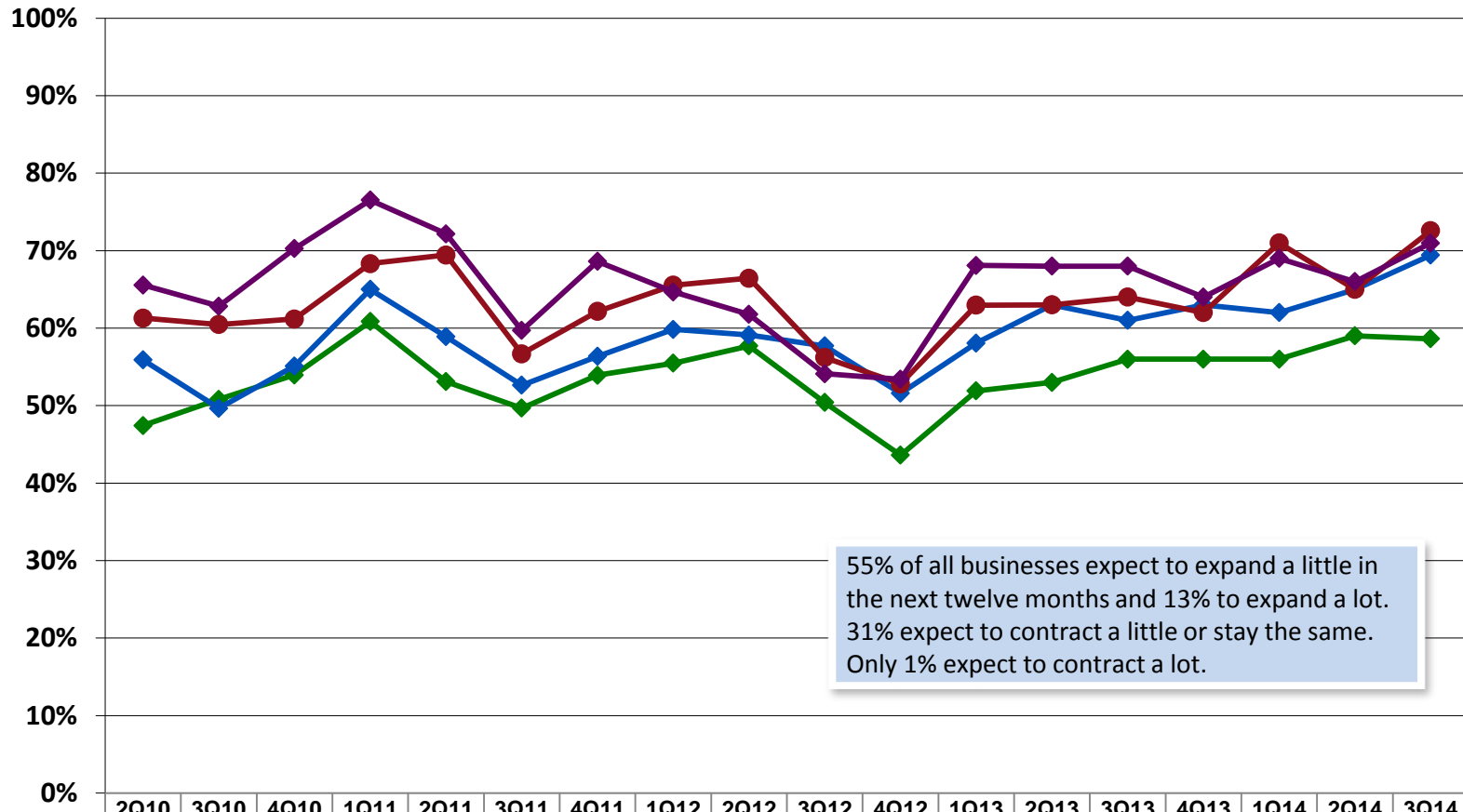
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months.



	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14
Midwest	50%	51%	46%	52%	63%	58%	42%	51%	60%	59%	46%	42%	51%	60%	55%	52%	55%	60%	66%
Northeast	43%	55%	50%	52%	59%	50%	40%	37%	53%	52%	40%	40%	47%	56%	52%	55%	63%	61%	68%
South	42%	50%	41%	49%	52%	53%	40%	44%	53%	51%	44%	38%	48%	54%	54%	53%	53%	62%	63%
West	40%	52%	46%	45%	54%	51%	41%	42%	55%	54%	44%	41%	53%	62%	59%	57%	70%	64%	62%

Expansion Plans by Business Size

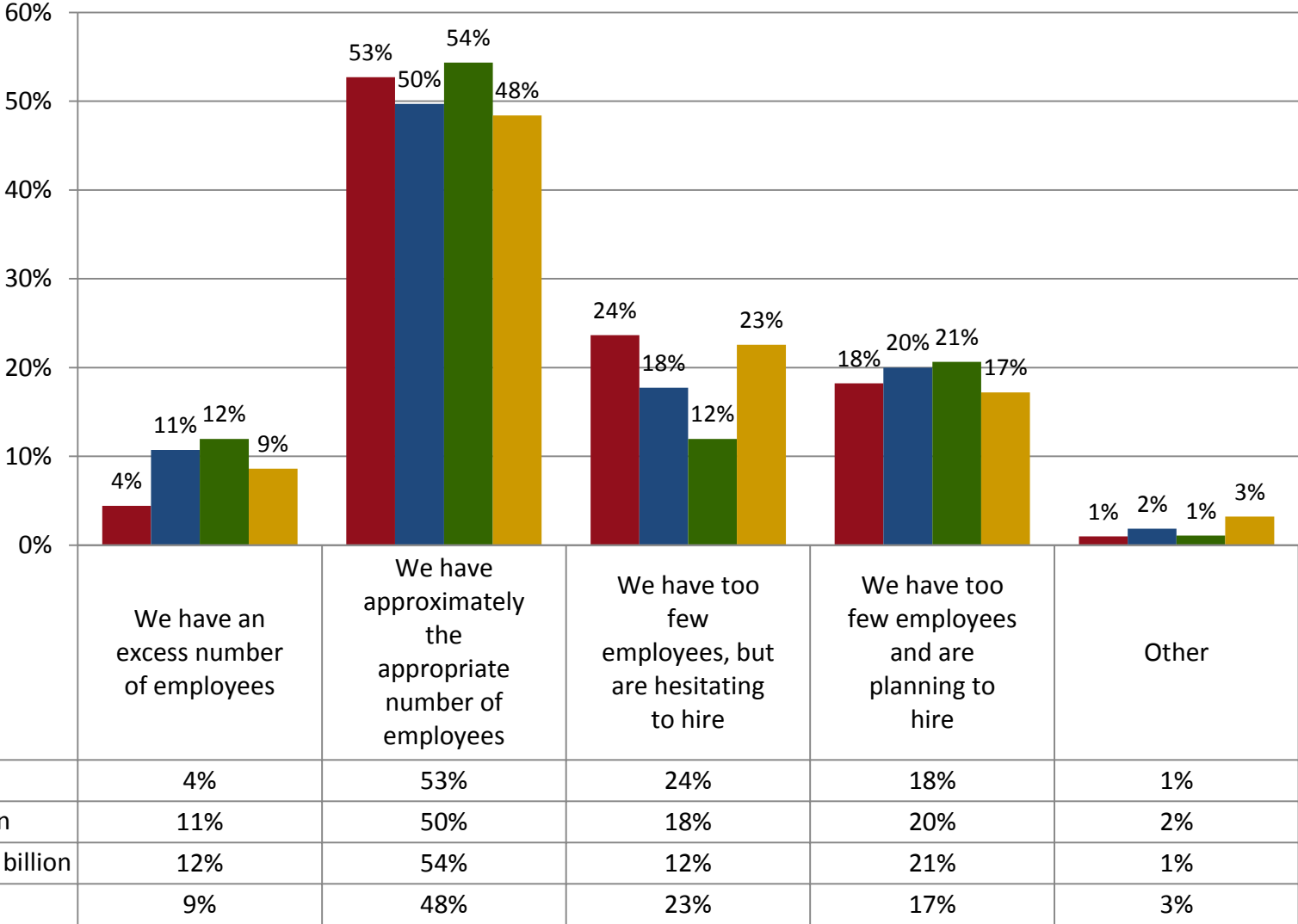
Please indicate whether you expect your business to expand or contract over the next 12 months



	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%

Small businesses are least likely to have excess employees and most hesitant to hire

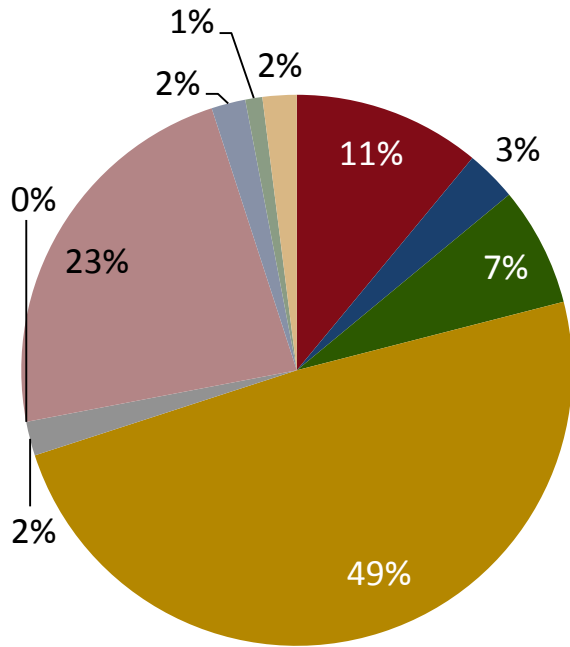
Given current conditions, how would you characterize your overall staffing situation relative to your needs (i.e., do you have excess capacity or are employees stretched)?



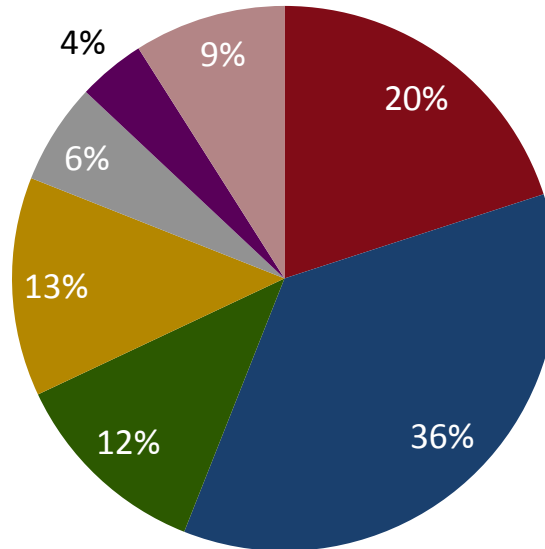
Demographics

Demographics

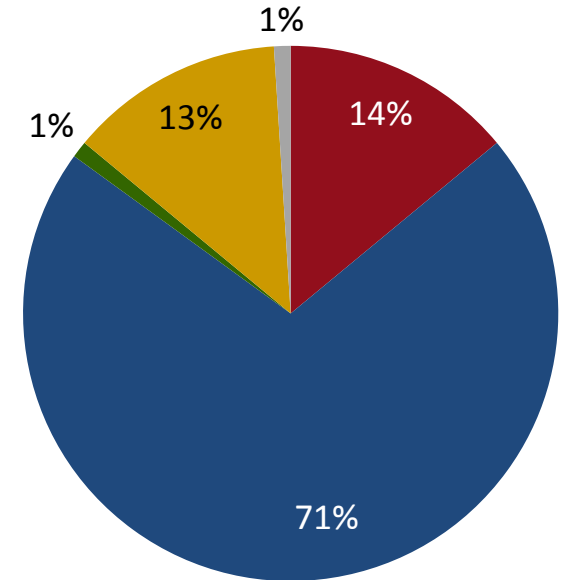
Position



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



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For additional information contact:

Kenneth W. Witt, CPA, CGMA
Technical Manager,
Management Accounting
kwitt@aicpa.org

Michael Philpot
Associate Project Manager,
Management Accounting
mphilpot@aicpa.org