



AICPA

Business and Industry Economic Outlook Survey

Detailed Survey Results — 3Q 2016

Survey Background

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

Survey Highlights

■ CPA Outlook Index improves a point

- Overall index improved from 68 to 69
- U.S. economy optimism index component declined a point from 59 to 58
- Organization optimism remained constant at 68, but expansion plans improved 3 points from 69 to 72

■ Profit, employment and spending for training and development improve

- Revenue index increases one points to 75 and profits index increases from 63 to 69
- Hiring component continues improvement from 63 to 66
- Training and Development spending also improves from 67 to 70

■ Optimism drops in retail, improves in construction, constant in real estate and manufacturing; expansion plans rebound for largest companies

- Retail trade fell off from its recovery in 2016 with only 33% of respondents being optimistic in Q3.
- Construction optimism improved to 69% up from 59% in Q1 and Q2. Real Estate optimism remained constant at 62%.
- Manufacturing optimism eased a point to 47%; hiring remained constant, at a 1.2% expected increase for the coming twelve months
- Expansion plans for companies with revenues > \$1billion rebounded from the 50% level in the first half of 2016 to 66% in Q3; however, 17% of this segment also indicate they have too many employees.

CPA Outlook Index (CPAOI)

CPA Outlook Index

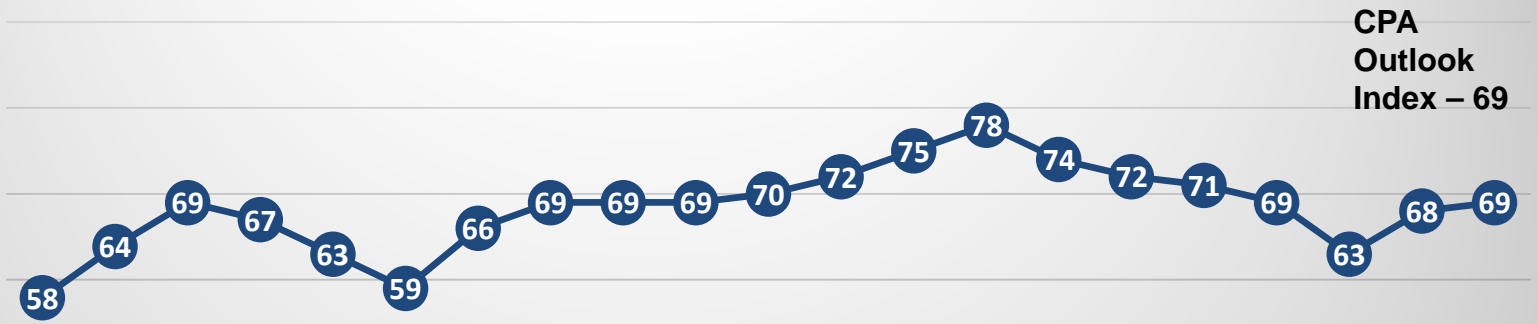
The CPA Outlook Index is a robust measure of sentiment about the U.S. economy that is supported by the unique insight and knowledge that CEOs, CFOs, Controllers, and other CPA executives have about the prospects for their own organizations, their expectations for revenues and profits, and their plans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

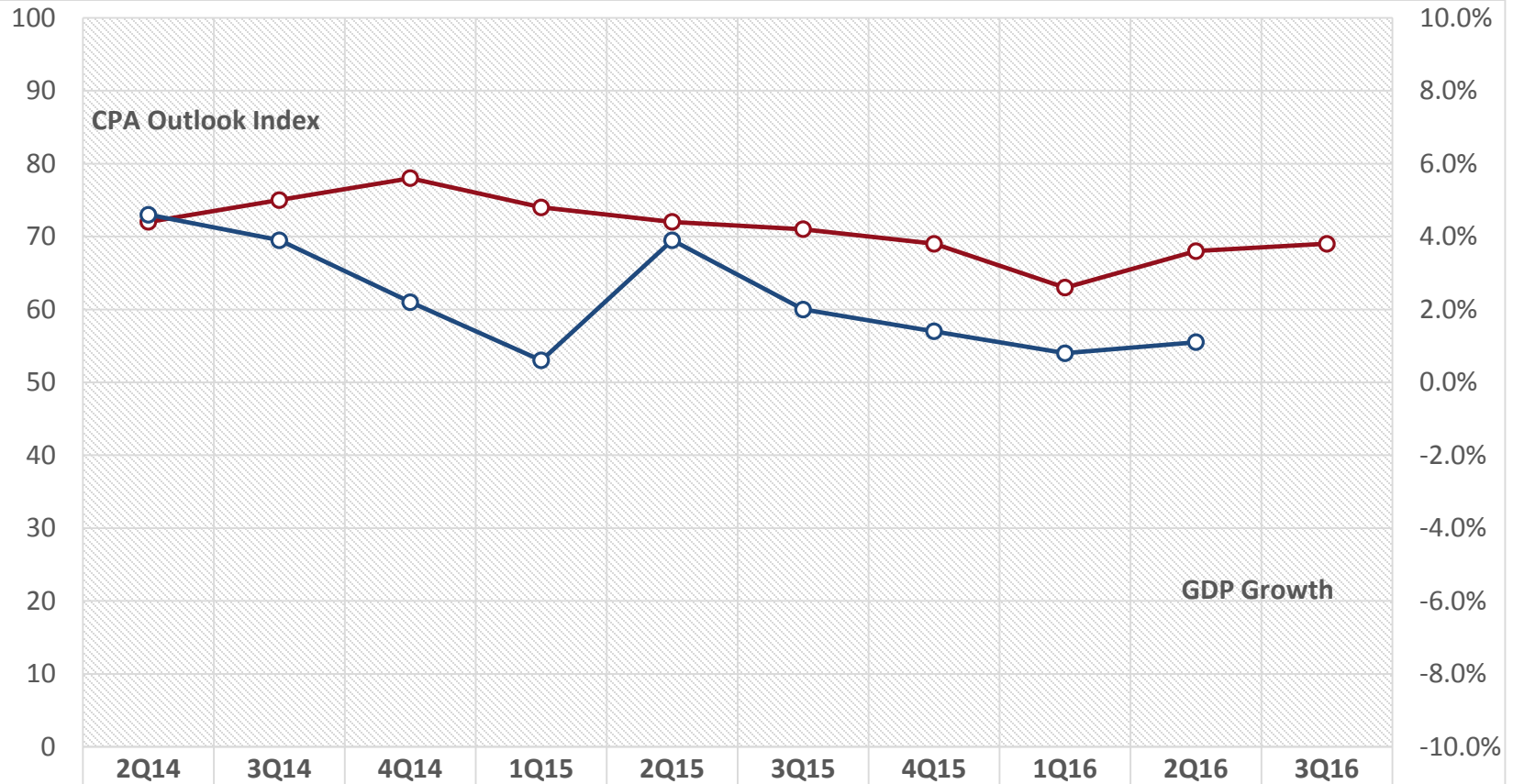


	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16
CPA Outlook Index	58	64	69	67	63	59	66	69	69	69	70	72	75	78	74	72	71	69	63	68	69

CPA Outlook Index Component Indicators

Component	3Q15	4Q15	1Q16	2Q16	3Q16	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	67	64	47	59	58	↓01	↓09
Organization Optimism	73	70	63	68	68	→00	↓05
Expansion Plans	72	70	63	69	72	↑03	→00
Revenue	76	74	68	74	75	↑01	↓01
Profits	71	67	60	63	69	↑06	↓02
Employment	66	67	59	63	66	↑03	→00
IT Spending	77	77	73	76	75	↓01	↓02
Other Capital Spending	72	72	67	70	71	↑01	↓01
Training & Development	69	68	67	67	70	↑03	↑01
Total CPAOI	71	69	63	68	69	↑01	↓02

CPA Outlook Index (CPAOI) vs. GDP



○ CPA Outlook Index	72	75	78	74	72	71	69	63	68	69
○ Change in GDP	4.6%	3.9%	2.2%	0.6%	3.9%	2.0%	1.4%	0.8%	1.1%	

U.S. & Organization Outlook

Outlook for the U.S. and Organizations

■ **Optimism for the U.S. Economy recovers another point**

- The percentage of executives optimistic about the U.S. Economy improved in Q3 to 37%, up a point from Q2, after declining to only 28% optimistic in Q1; pessimism increased a point to 22%; however, this is down from 34% at Q1
- Low energy prices and interest rates were cited by many optimists
- Political turmoil and election year were cited by both optimists and pessimists.

■ **Organizational optimism remains constant; expansion plans recover further**

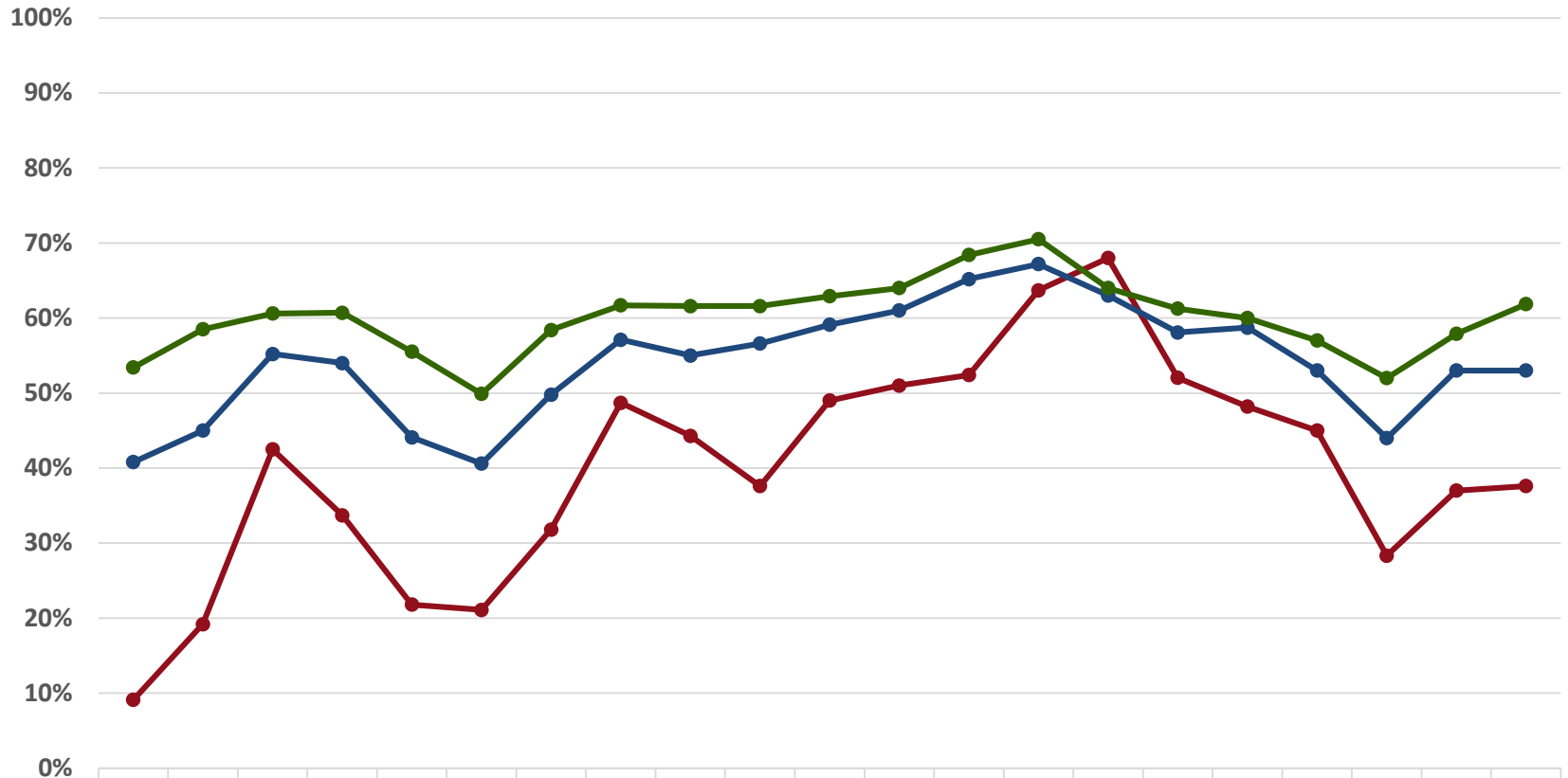
- Optimism about own company prospects remained constant with Q2 at 53%
- The percentage of companies expecting their business to expand recovered further to 62%, up from 52% in Q1 and 58% in Q2
- The percentage of companies expecting their businesses to contract also eased another 2 points to 17%, down from 19% in Q2 and 25% in Q1

■ **Concern about inflation vs. deflation flips back**

- Only 11% of respondents indicate concern about inflation in Q3
- Labor costs continued as being the most pressing concern for 55% of respondents
- Concern about energy costs declined from 11% to 6%, while interest rates eased another 2 points from 16% to 14%

Optimism & Expansion

U.S., Organization, Expansion

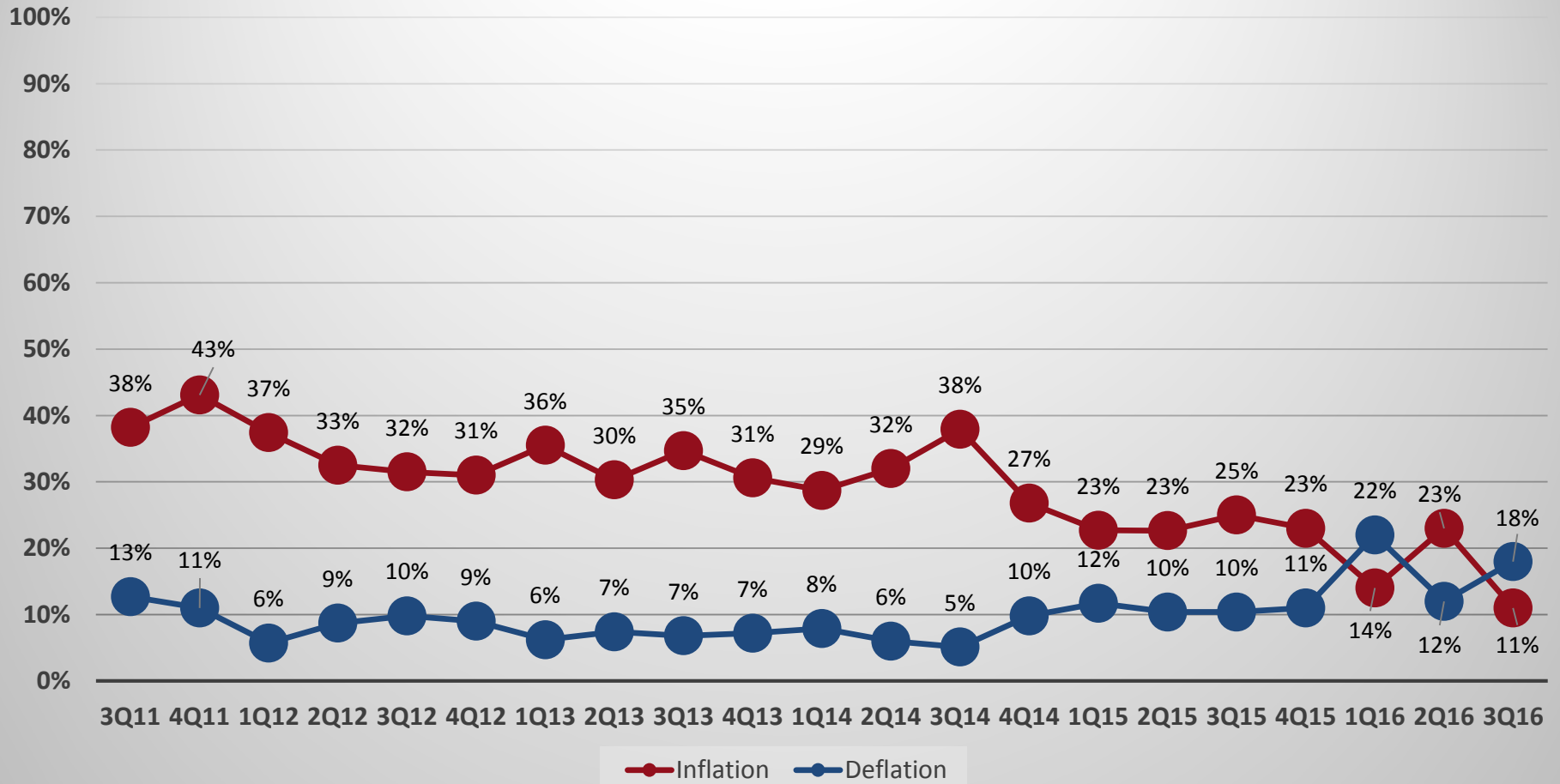


U.S.	9%	19%	43%	34%	22%	21%	32%	49%	44%	38%	49%	51%	52%	64%	68%	52%	48%	45%	28%	37%	38%
Organization	41%	45%	55%	54%	44%	41%	50%	57%	55%	57%	59%	61%	65%	67%	63%	58%	59%	53%	44%	53%	53%
Expansion	53%	59%	61%	61%	56%	50%	58%	62%	62%	62%	63%	64%	68%	71%	64%	61%	60%	57%	52%	58%	62%

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

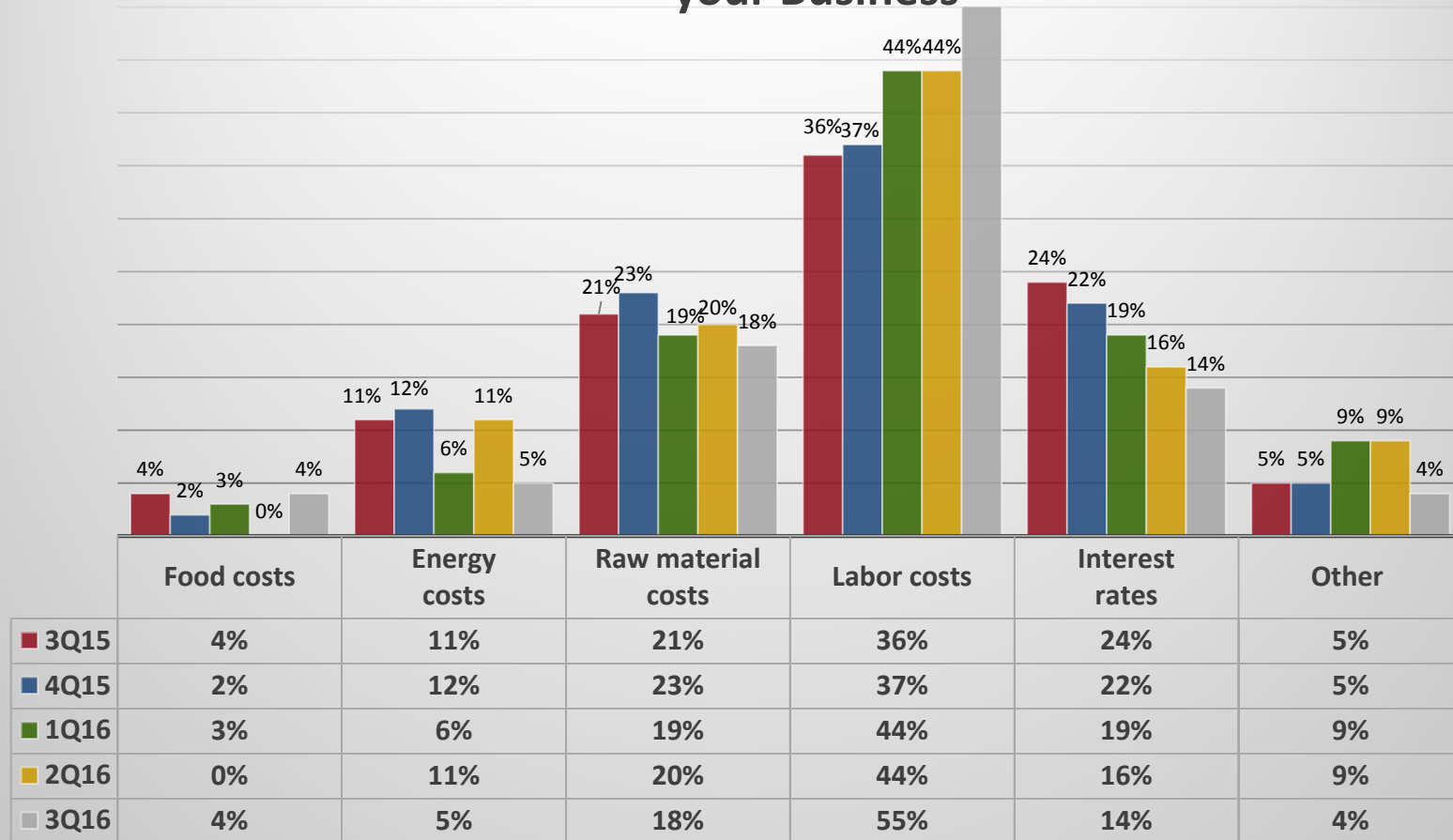
For your business, over the next 6 months, are you more concerned about the possibility of ...?

Inflation or Deflation?



Inflationary Risks and Costs

Inflationary Factor Representing the Most Significant Risk to your Business



Key Performance Indicators

Key Performance Indicators

■ Outlooks for profits recover further; headcount plans also improve

- Expected revenue increase eases a point from 3.0% in Q2 to 2.9% in Q3; expected profit increase recovers to 2.0% after dipping in the first half of 2016
- Headcounts are now expected to increase by 1.3% over the next twelve months after falling to a projection of only 0.5% in Q1
- Expected salary and benefit costs increases rose three tenths to 1.8%
- Anticipated healthcare cost increases eased a point from 5.7% in Q2, to 5.6% in Q3
- The expected increase in “other input prices” eased 2 tenths to 1.9%; the expected ability to increase “prices charged” also improved 2 tenths to 1.5% in Q3

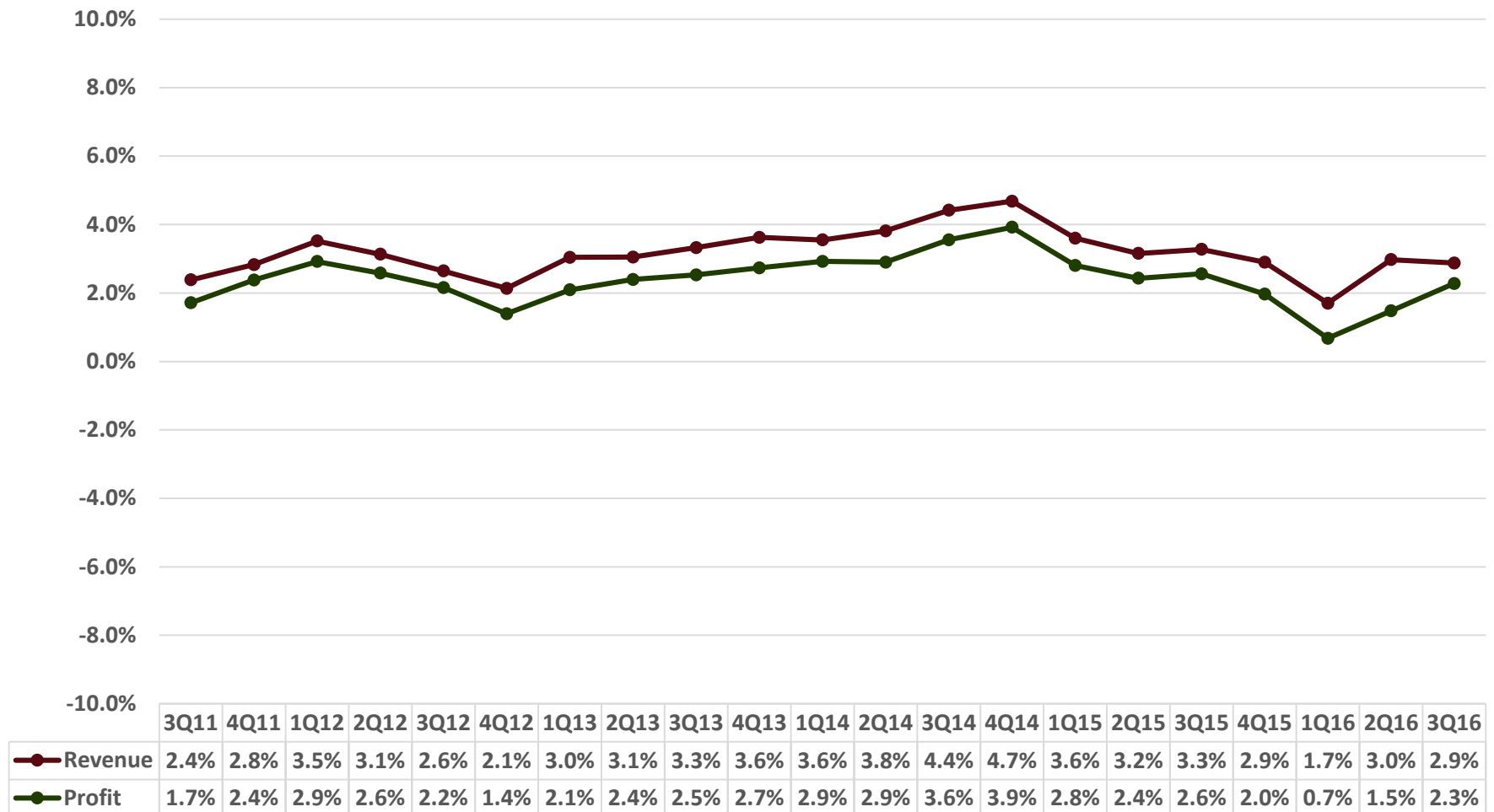
■ Key spending plans continue to improve

- Increased spending for IT continues to be the strongest category, and improved to 2.8% in Q3
- Other capital spending plans also improved from 2.1% in Q2 to 2.4% in Q3
- Expected increase in training spending also continued to improve, increasing another 3 points to 1.6% in Q3
- Plans for marketing spending remained constant at 1.4%; R&D spending also remained constant with Q2 at 1.1%

Key Performance Indicators

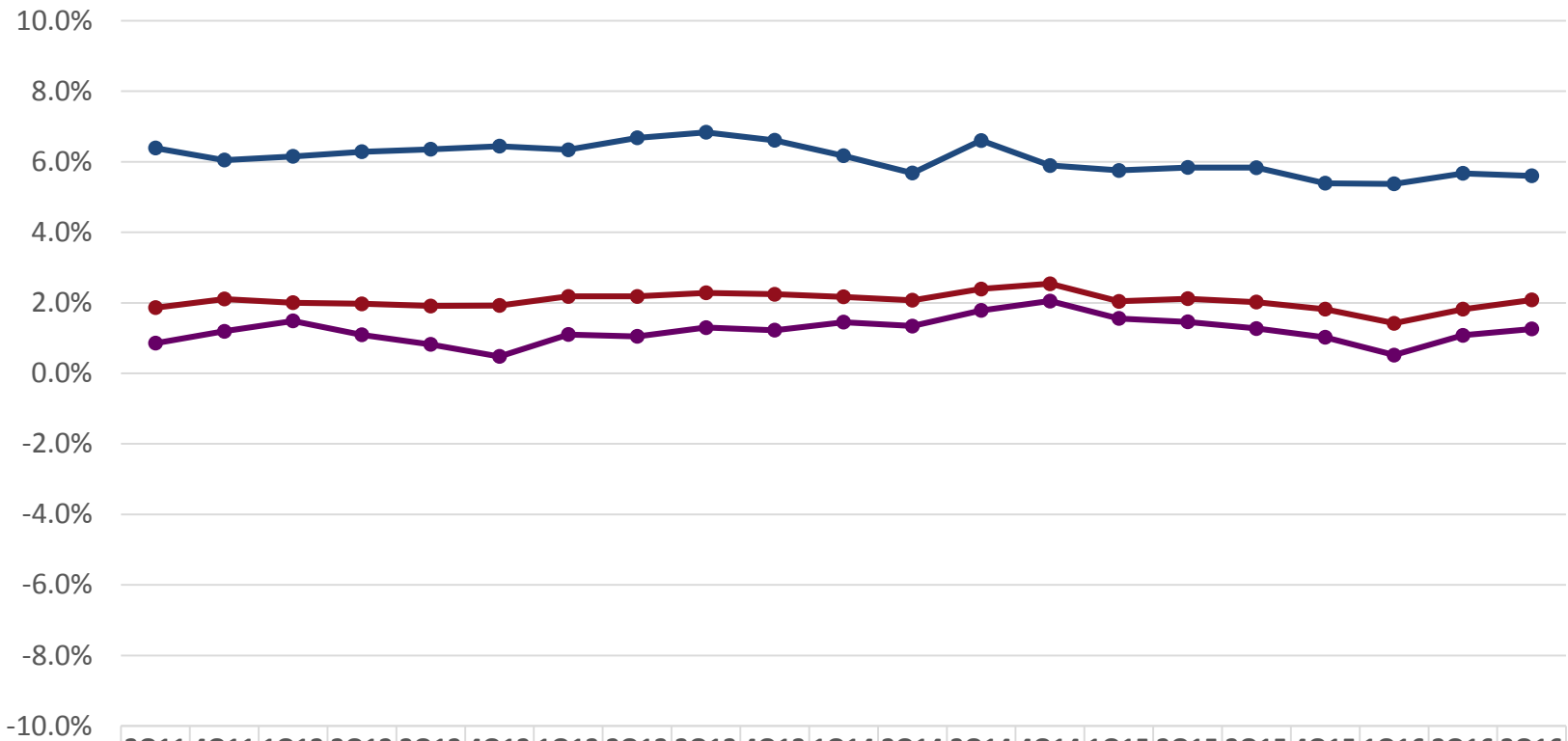
Expected Growth in Revenue and Profits

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 ...

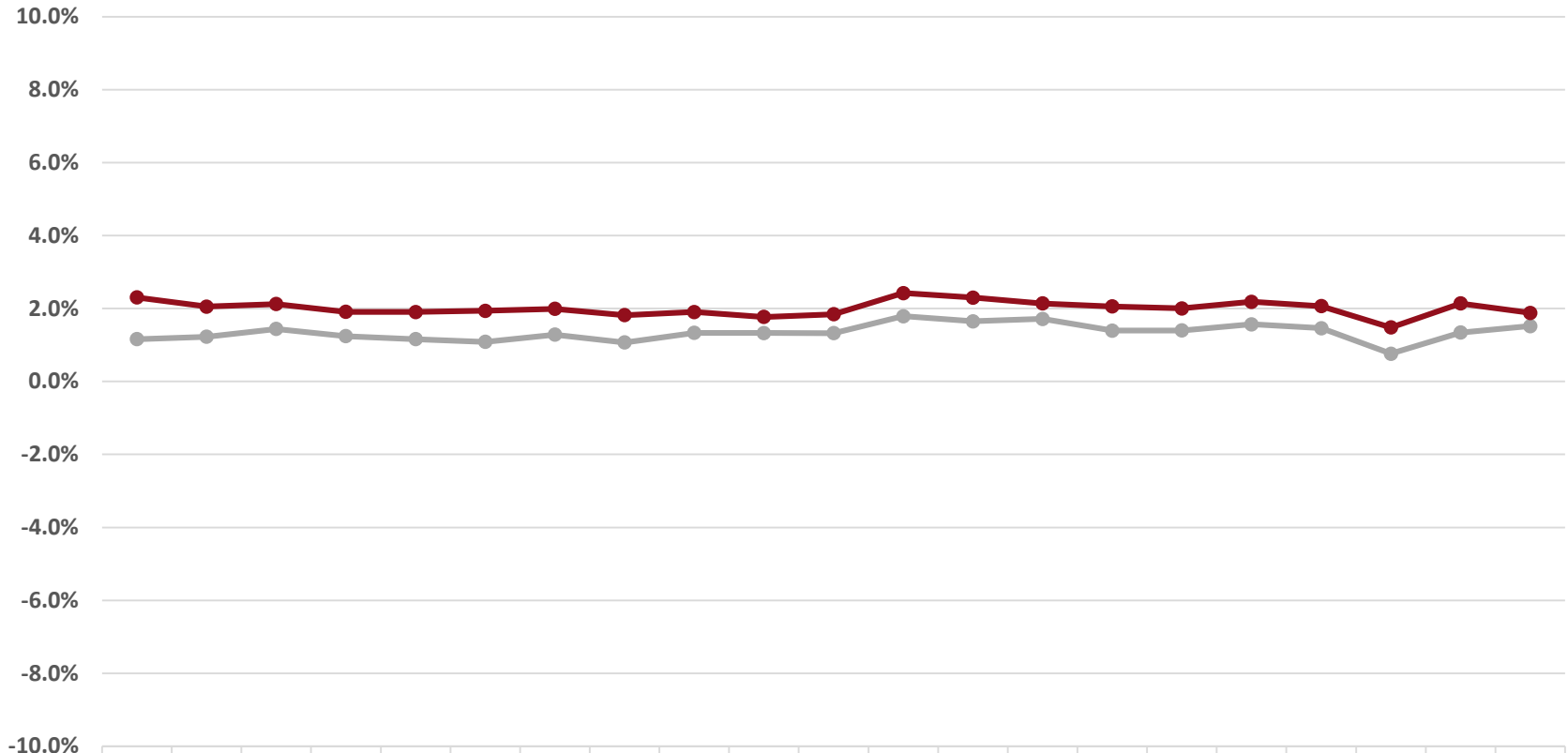


Employees	0.9%	1.2%	1.5%	1.1%	0.8%	0.5%	1.1%	1.0%	1.3%	1.2%	1.5%	1.3%	1.8%	2.1%	1.6%	1.5%	1.3%	1.0%	0.5%	1.1%	1.3%
Salary & Benefits	1.9%	2.1%	2.0%	2.0%	1.9%	1.9%	2.2%	2.2%	2.3%	2.2%	2.2%	2.1%	2.4%	2.5%	2.0%	2.1%	2.0%	1.8%	1.4%	1.8%	2.1%
Healthcare	6.4%	6.0%	6.2%	6.3%	6.4%	6.4%	6.3%	6.7%	6.8%	6.6%	6.2%	5.7%	6.6%	5.9%	5.8%	5.8%	5.8%	5.4%	5.4%	5.7%	5.6%

Pricing & Other Costs

Average Change Expected

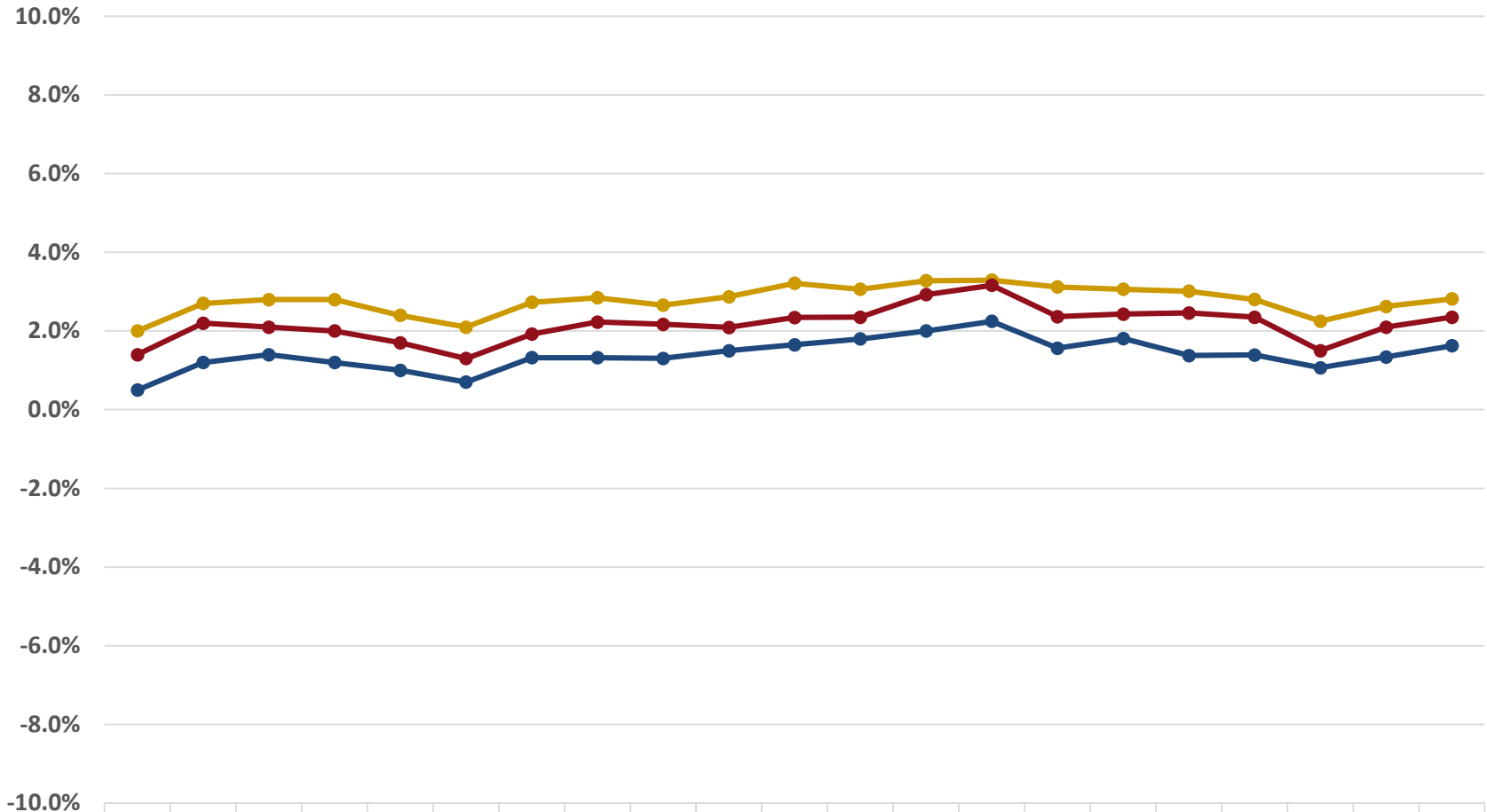
Thinking about the coming 12 months, please comment on the probable change for your organization ...



	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16
— Prices Charged	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%	1.3%	1.5%
— Input Prices	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%	2.1%	1.9%

Spending Plans IT, Other Capital & Training

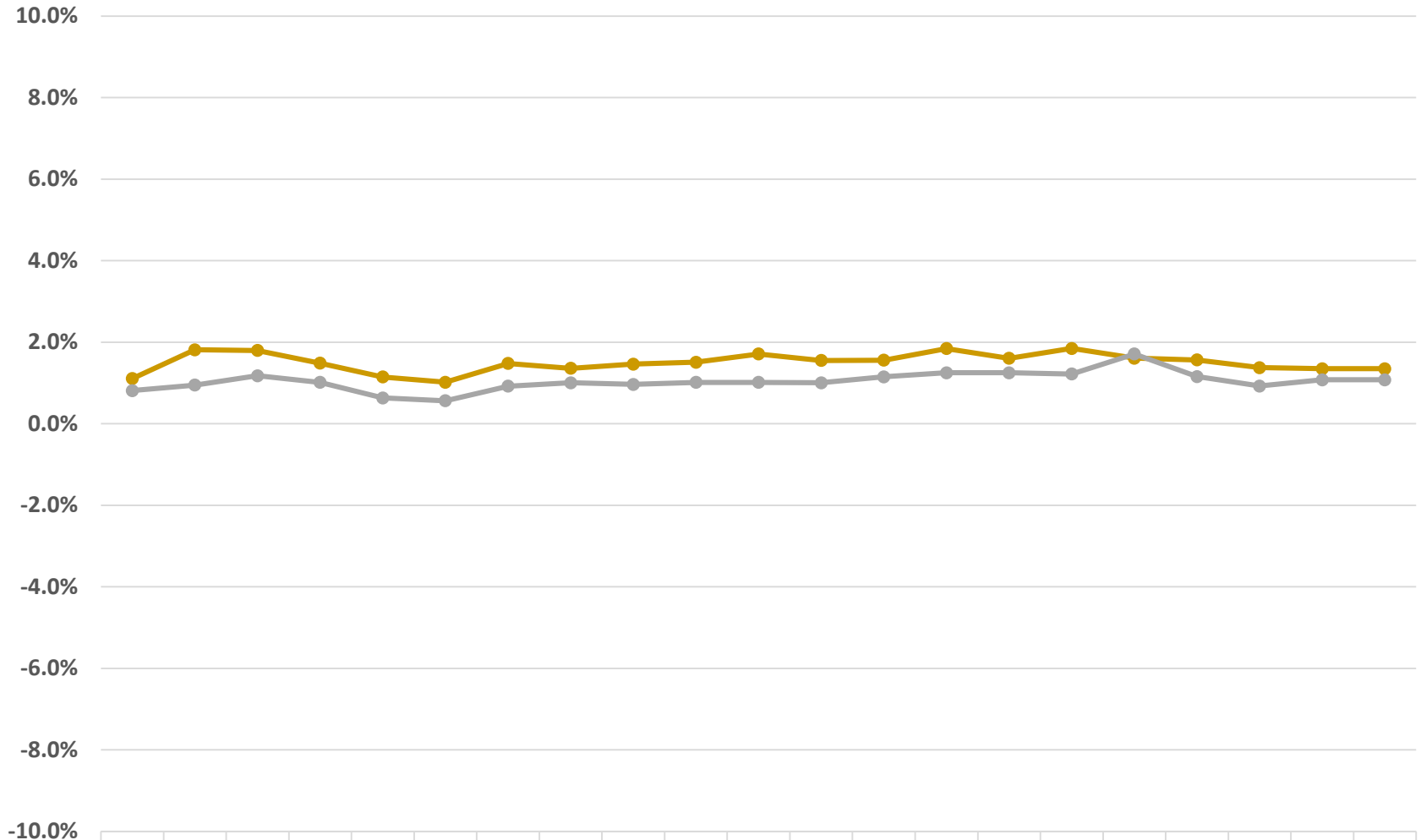
Thinking about the coming 12 months, please comment on the probable change for your organization for ...



IT	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%	2.6%	2.8%
Other Capital	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%	2.1%	2.4%
Training	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%	1.3%	1.6%

Spending Plans Marketing & R&D

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



	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16
Marketing	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%	1.4%	1.4%
R&D	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%	1.1%	1.1%

Hiring Plans

Hiring Plans

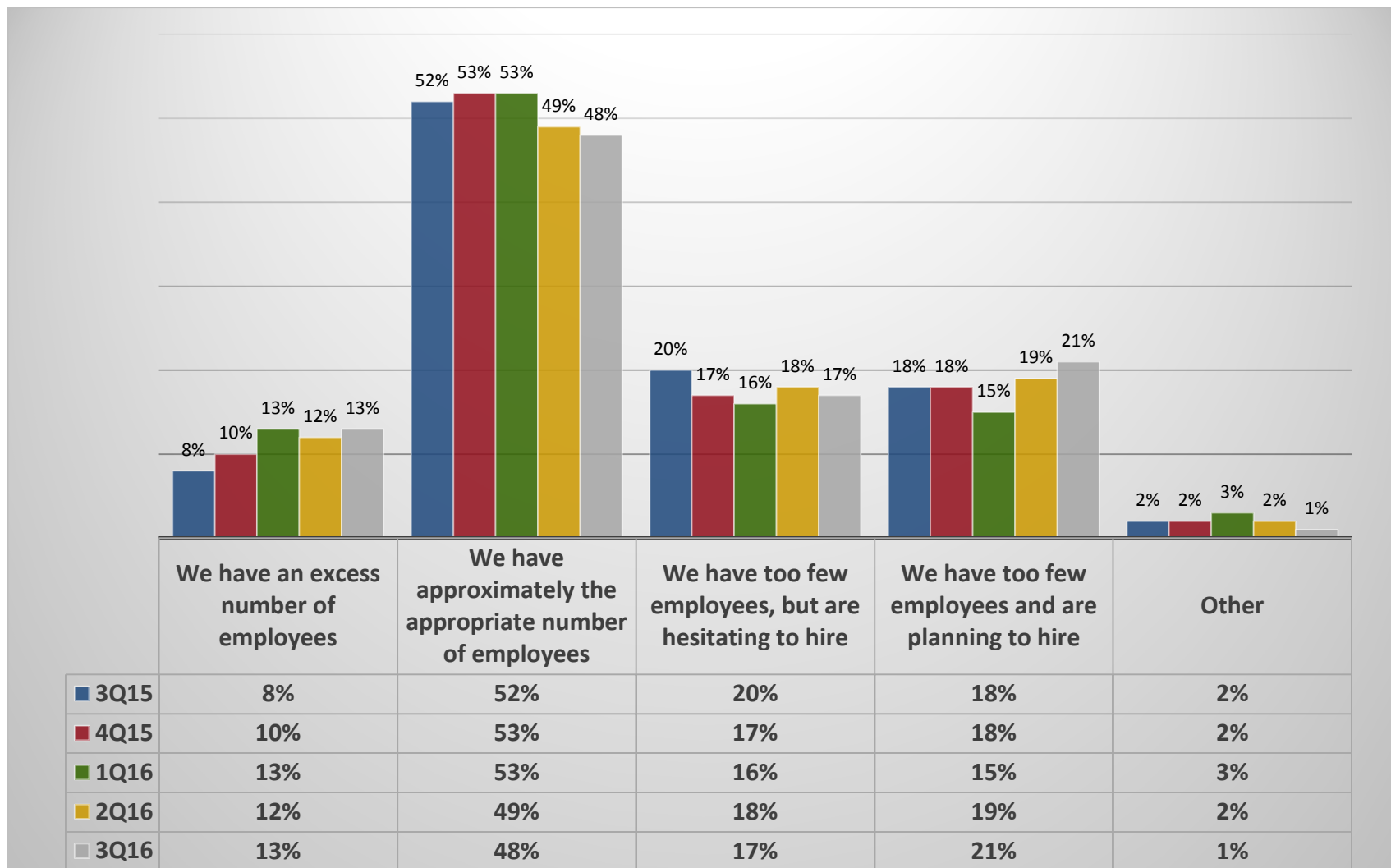
■ Hiring plans continue to improve

In Q3, 48% of all companies say they have the appropriate number of employees, down from the 52% - 55% range over the past year

- The number of companies now saying they have an excess number of employees increased a point from 12% to 13%
- More than a third (38%) have too few employees;
 - The percentage of companies with too few employees who are reluctant to hire declined a point from 18% in Q2, 2016 to 17% in Q3
 - Those with too few employees that are planning to hire also improved, increasing an additional two points from 19% in Q2 to 21% in Q3, 2016

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

- Regulatory requirements and domestic economic conditions maintained their ranking at the top of the challenges list
- Availability of skilled personnel, domestic competition and employee and benefit costs also maintained their spots in the top five
- Stagnant/declining markets, followed by domestic political leadership also held their sixth and seventh place rankings
- Liquidity moved up a spot to eighth switching places with developing new products/services/markets which gave up a spot, now ranking ninth
- Financing/cost of capital returned to the number ten spot after falling out of the top ten last quarter

Top Challenges for Organizations

Please indicate the top three challenges for your organization

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

Outlook by *Industry, Region and Business Size*

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

■ Optimism falls off in retail, improves in construction, remains constant in real estate and manufacturing

- **Retail trade** fell off from its recovery in 2016 with only 33% of respondents being optimistic in Q3. Retail hiring continues to be soft, but improved slightly to 1.1% from only 0.9% in Q2. **Wholesale trade** optimism also declined from 50% in Q2 to 45%.
- **Construction** optimism improved to 69% up from 59% in Q1 and Q2. However, the expected increase in construction headcount eased from 1.4% in Q2 to .8% in Q3. **Real Estate** optimism remained constant at 62%.
- **Manufacturing** optimism eased a point to 47%; hiring remained constant, at a 1.2% expected increase for the coming twelve months
- **Professional Services** also eased a bit from 70% in Q2 to 67% in Q3. Hiring in the professional services sector also eased a bit but remains strong at 3%.
- **Technology** optimism and hiring also recovered; 71% of technology respondents are now optimistic and technology hiring improved further from an expected increase of 2.3% in Q2 for the coming twelve months to 4.4% at Q3.
- **Finance and Insurance** eased a point to 57% optimistic, but hiring improved from 1.4% to 1.7%.

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

■ Other Sectors

- **Healthcare providers** continued to be strong with 68% optimistic in Q3, 2016 after falling sharply to only 38% optimistic in Q4, 2015
- **Healthcare-other** fell to 50% optimistic, down from 63% optimistic in Q2

■ Optimism improves in West, declines in South and Northeast

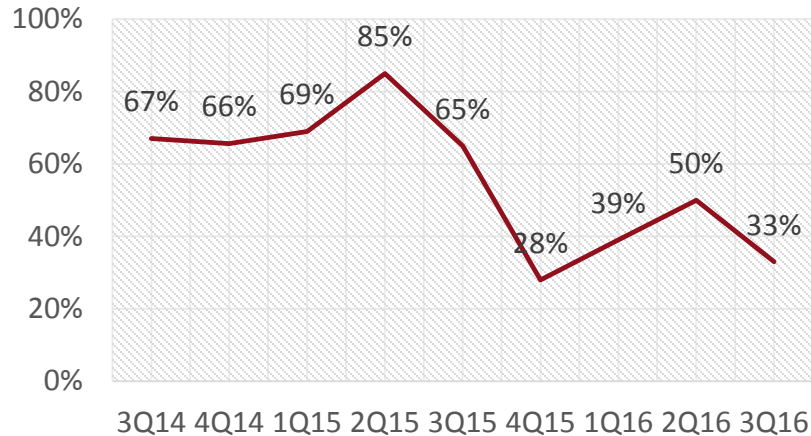
- The West improved from 54% in Q2 to 57% in Q3
- The South gave back some Q2 gains, falling from 53% in Q2 to 48% in Q3
- The Northeast also gave back some gains, declining from 62% in Q2 to 58% in Q3
- The Midwest held its ground, remaining constant at 53% optimistic

■ Expansion plans improve

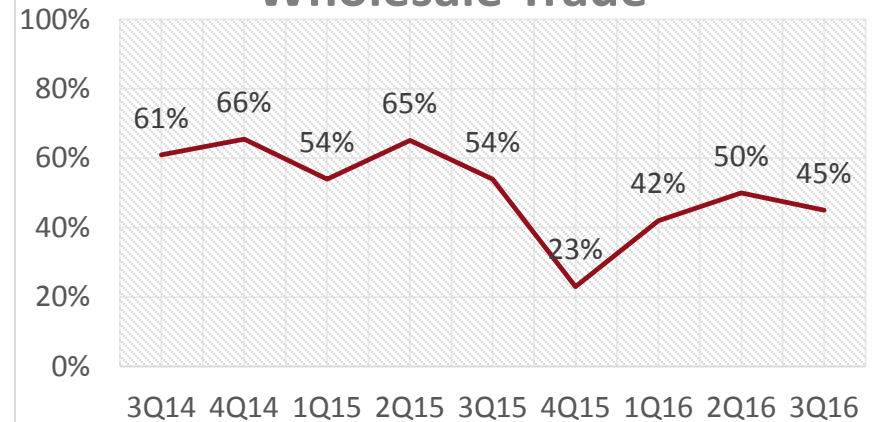
- The number of companies with revenues < \$10 million having expansion plans eased from 55% in Q2 to 53% in Q3
- The \$10-\$100 million range of companies improved further from 61% to 65%
- The \$100 billion to \$1 billion range of companies also eased two points to 59% in Q3, after rebounding from only 50% with expansion plans in Q1 to 61% in Q2
- The percentage of companies with revenues > \$1 billion having expansion plans rebounded strongly to 66% in Q3 after hovering around the 50% mark during the first half of 2016. However, this segment also has the highest percentage of companies with excess employees at 17%.

Organization Optimism by Industry

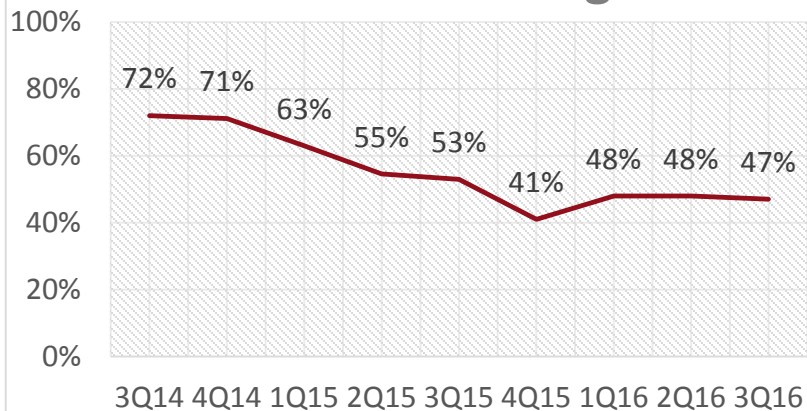
Retail Trade



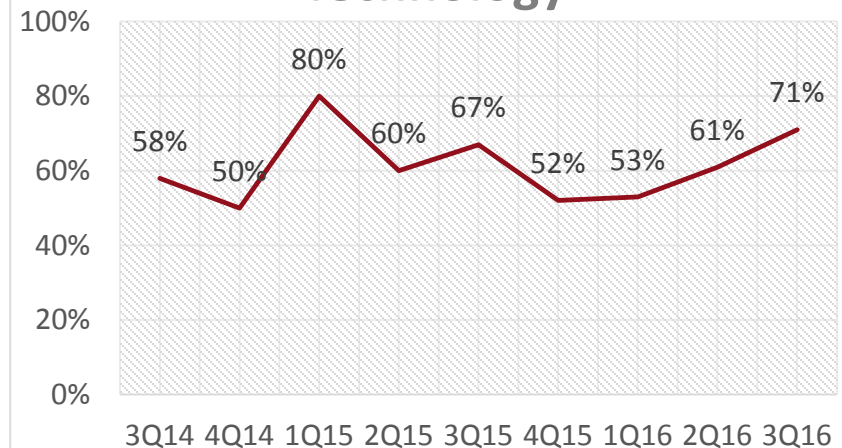
Wholesale Trade



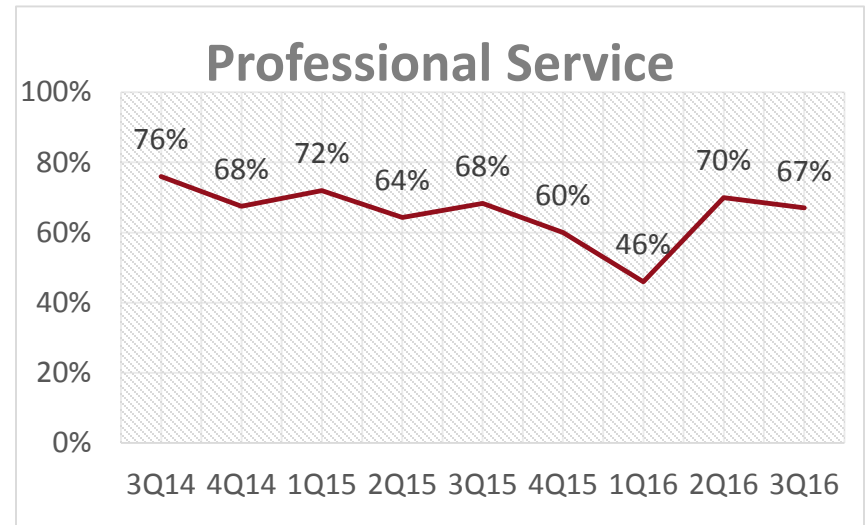
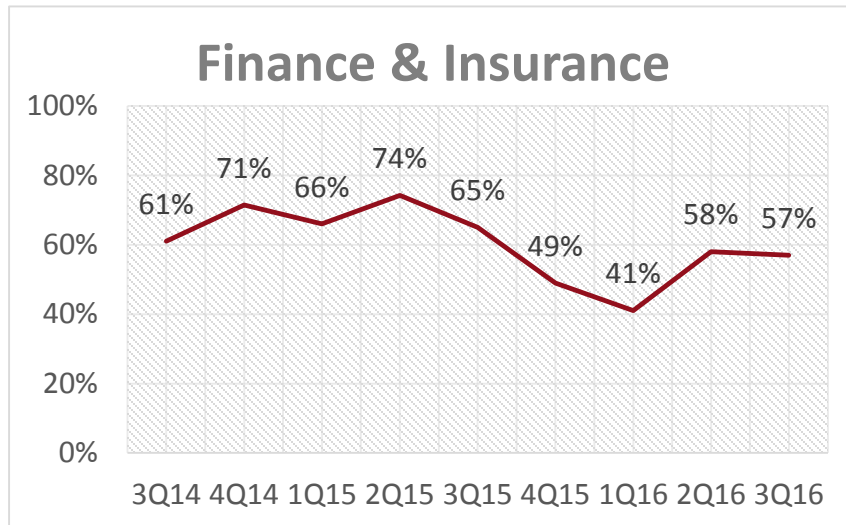
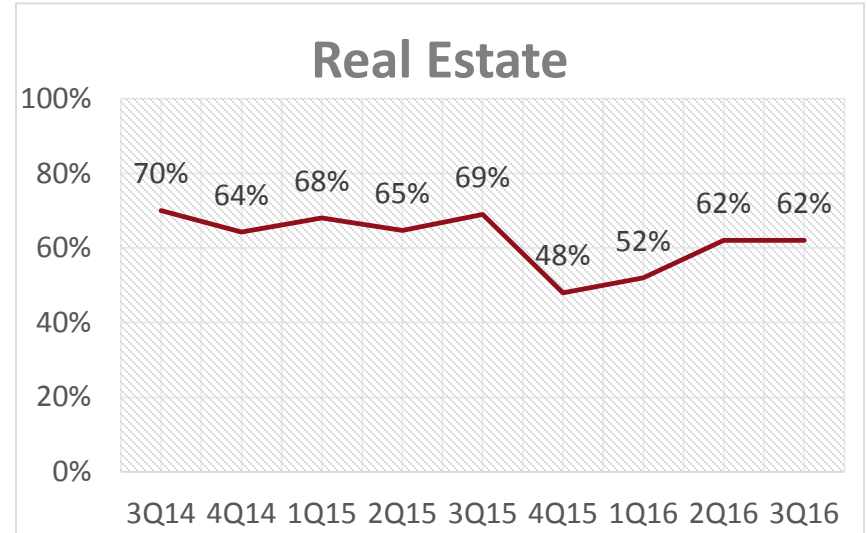
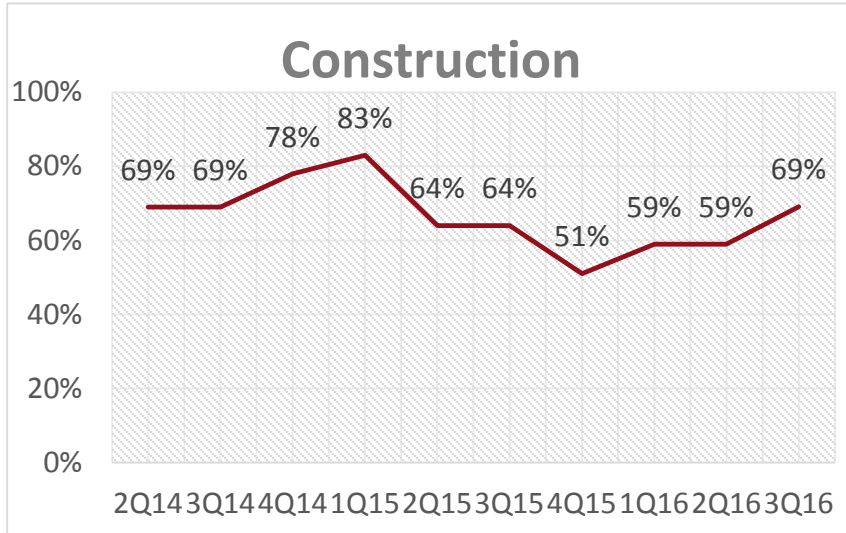
Manufacturing



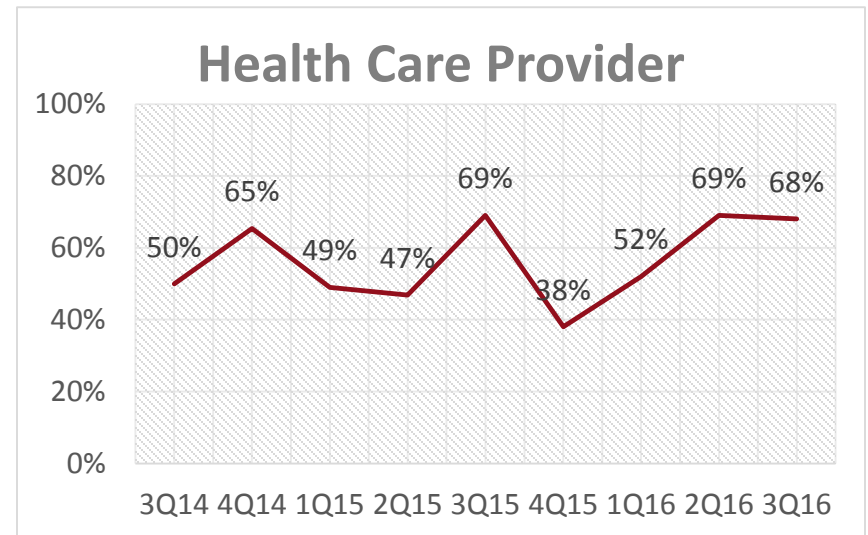
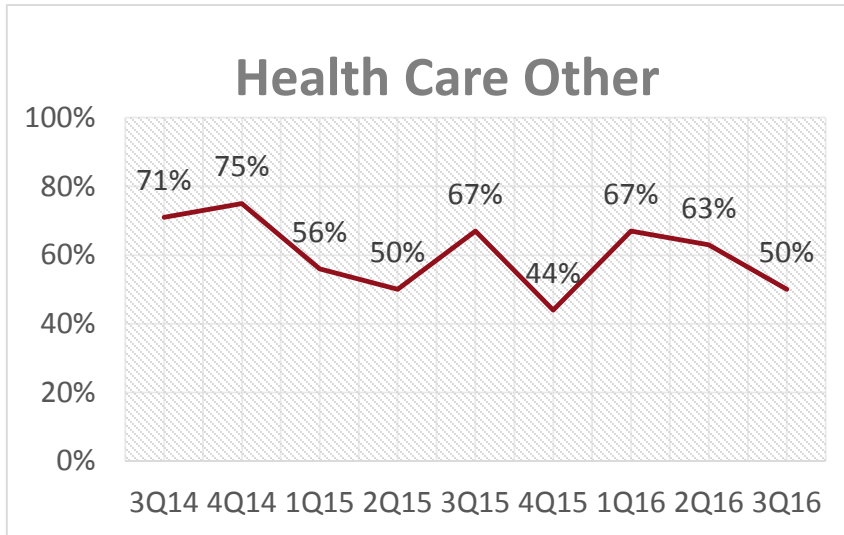
Technology



Organization Optimism by Industry

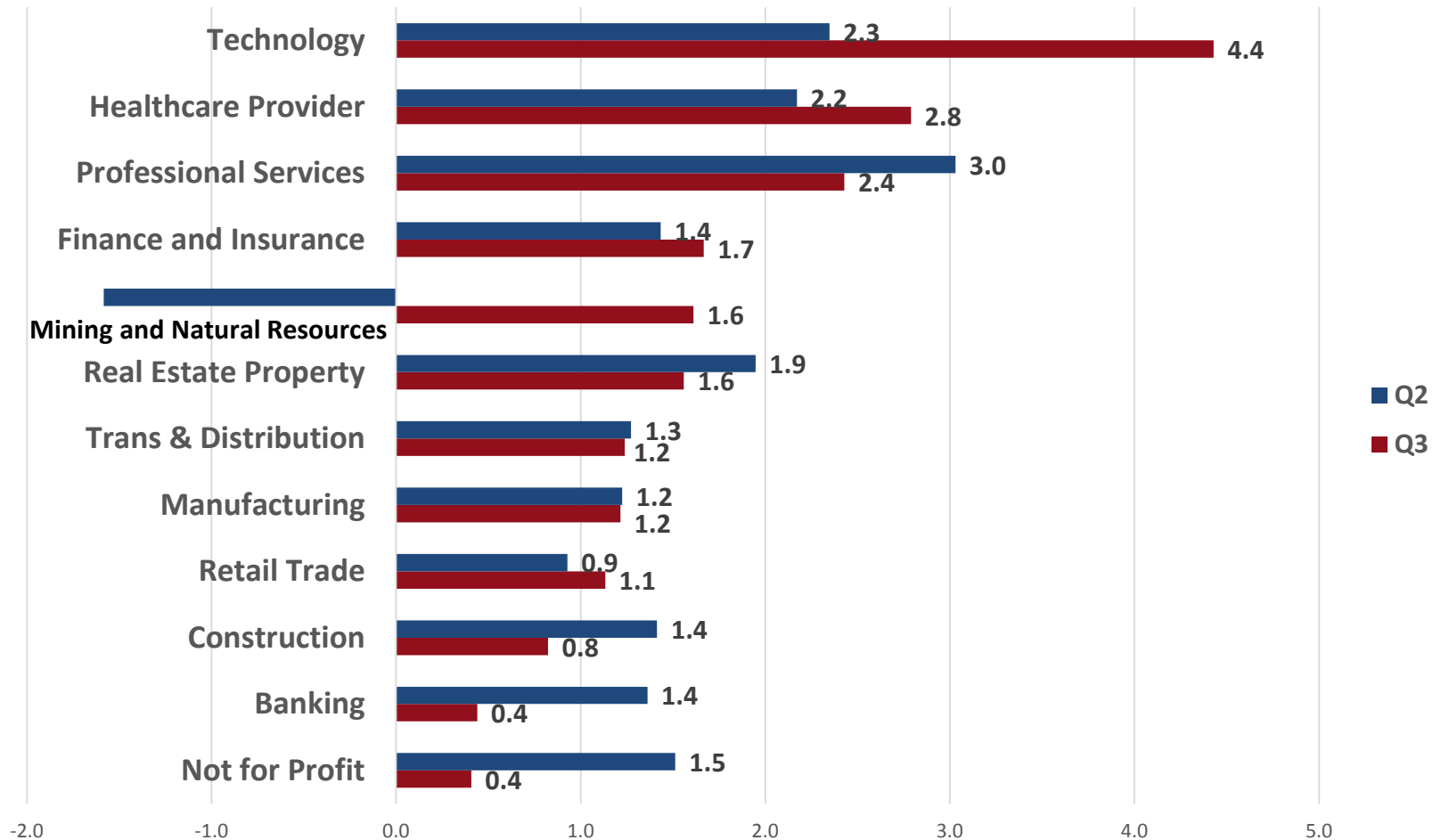


Organization Optimism by Industry



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

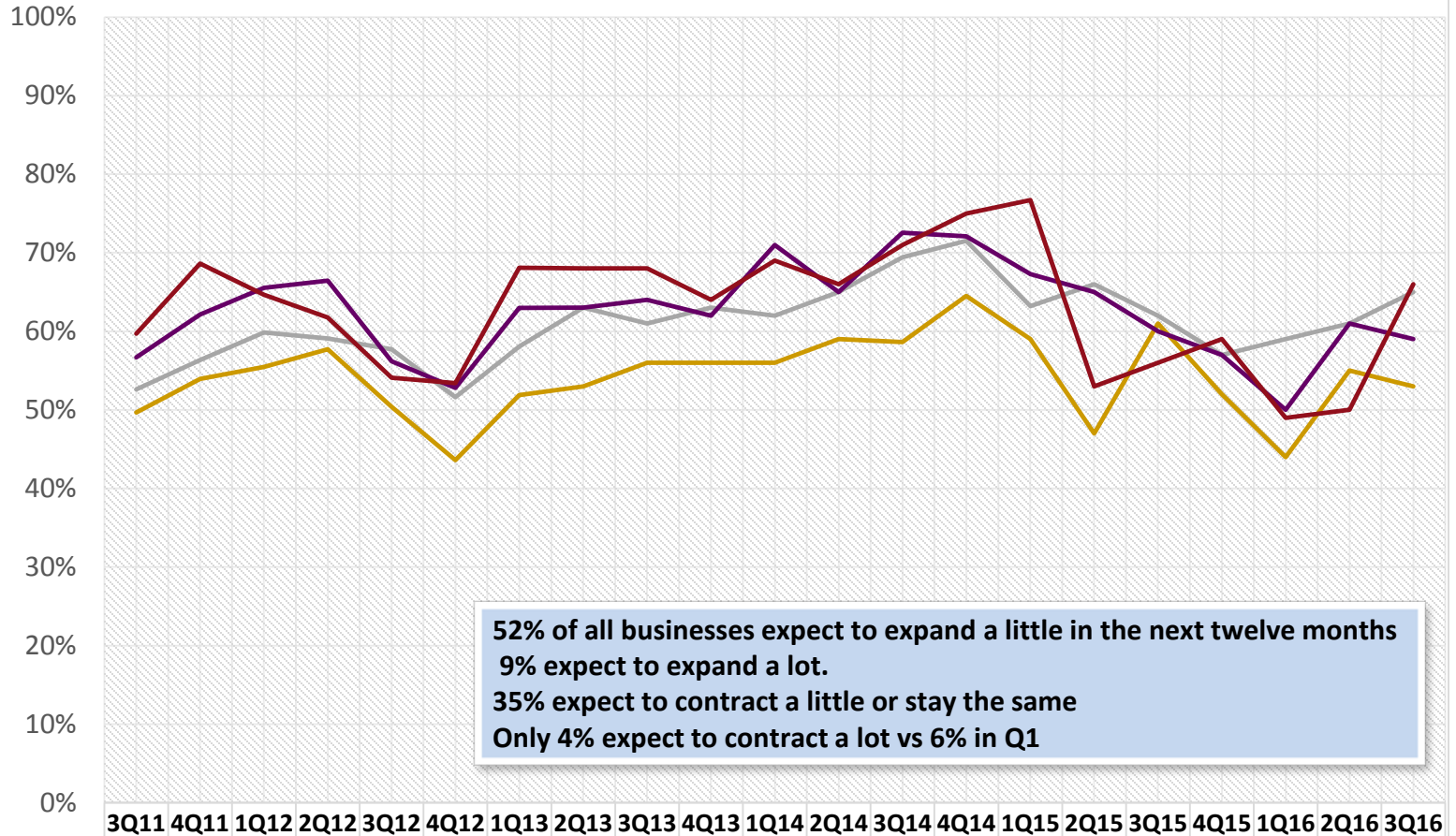
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months.



	3Q15	4Q15	1Q16	2Q16	3Q16
— South	54%	48%	38%	53%	48%
— Midwest	61%	55%	45%	53%	53%
— Northeast	62%	58%	48%	62%	58%
— West	63%	55%	55%	54%	57%

Expansion Plans by Business Size

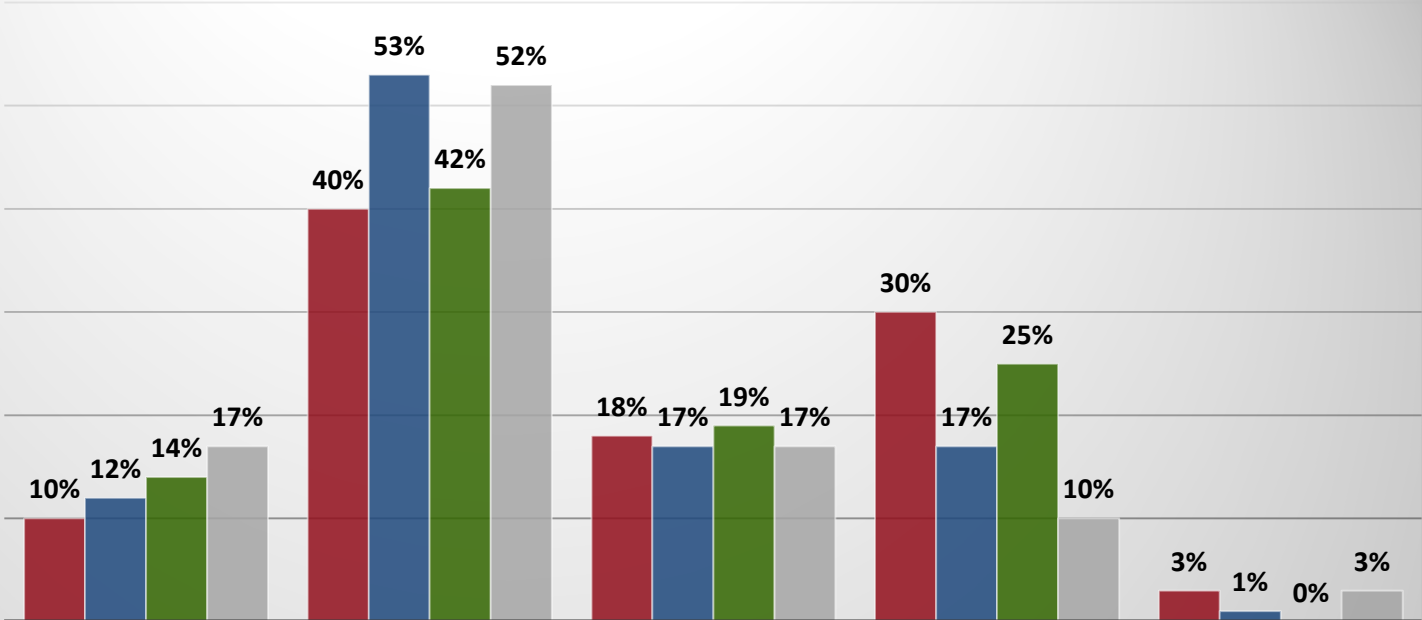
Please indicate whether you expect your business to expand or contract over the next 12 months



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

Businesses in the >\$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)?



	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
■ < \$10 million	10%	40%	18%	30%	3%
■ \$10 to <\$100 million	12%	53%	17%	17%	1%
■ \$100 million to <\$1 billion	14%	42%	19%	25%	0%
■ > \$1 billion	17%	52%	17%	10%	3%

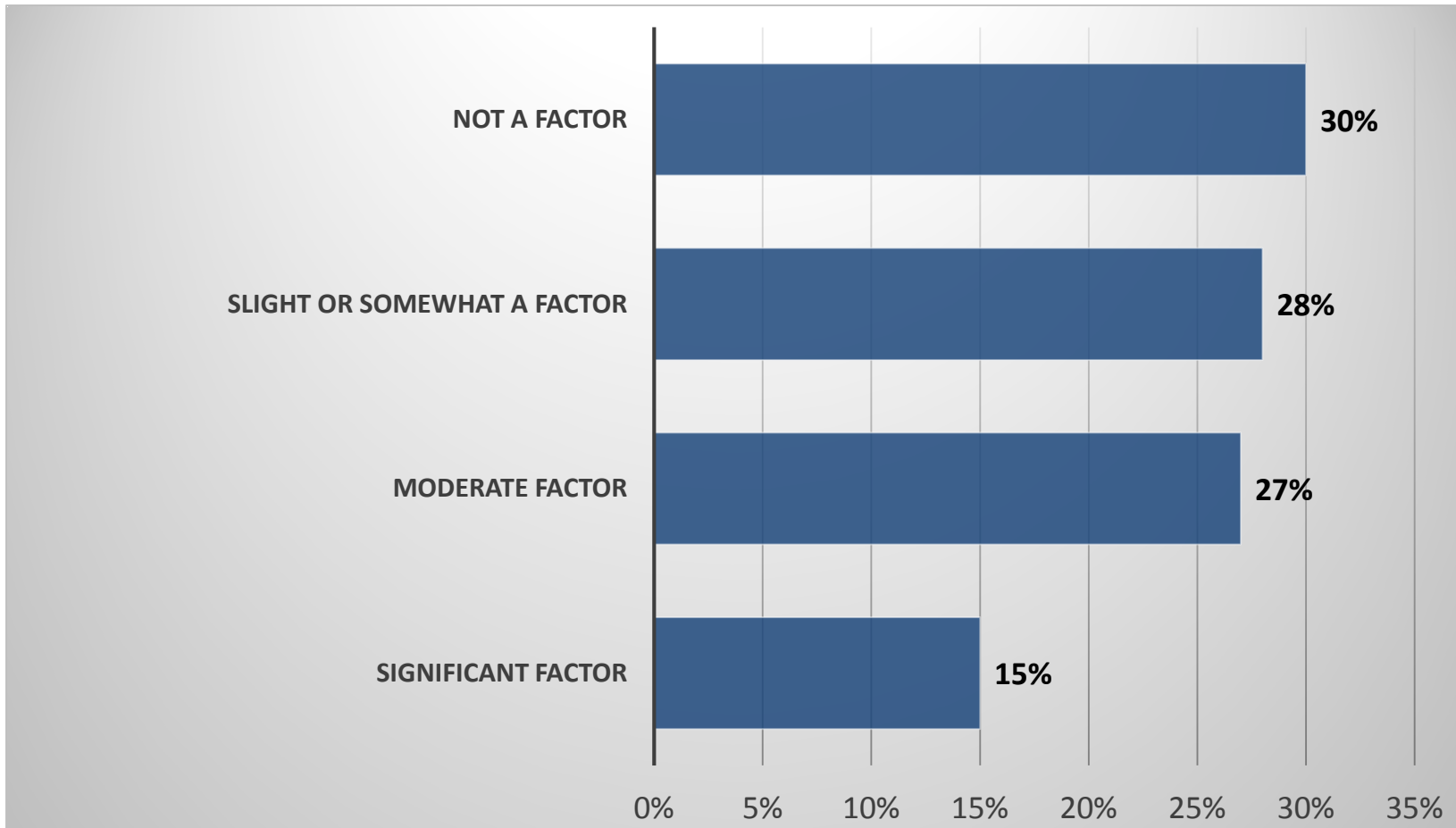
AICPA Economic Outlook Survey 3Q 2016

Survey Within a Survey

2016 Elections

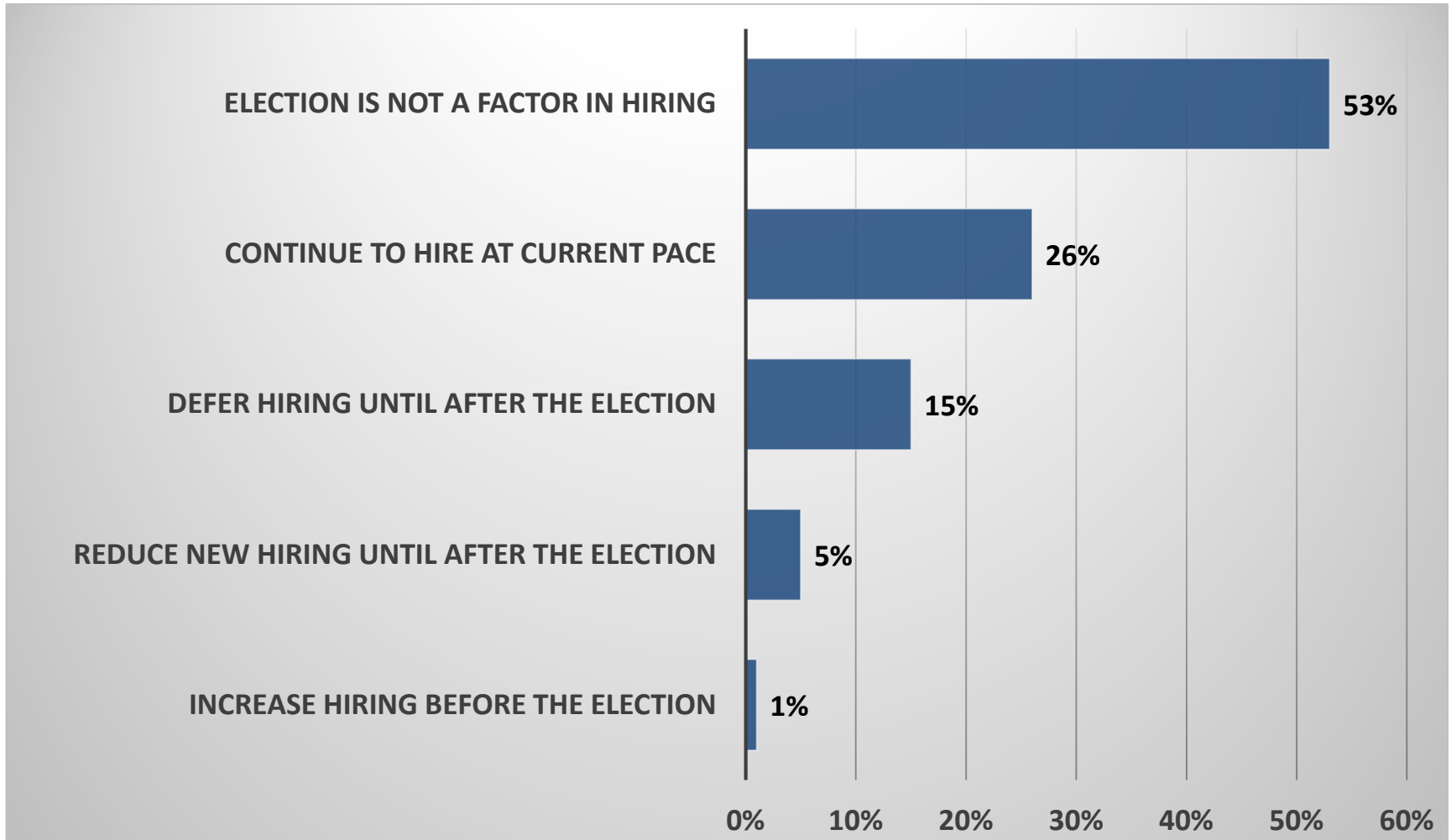
Presidential Election – A Factor in Business Planning?

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?



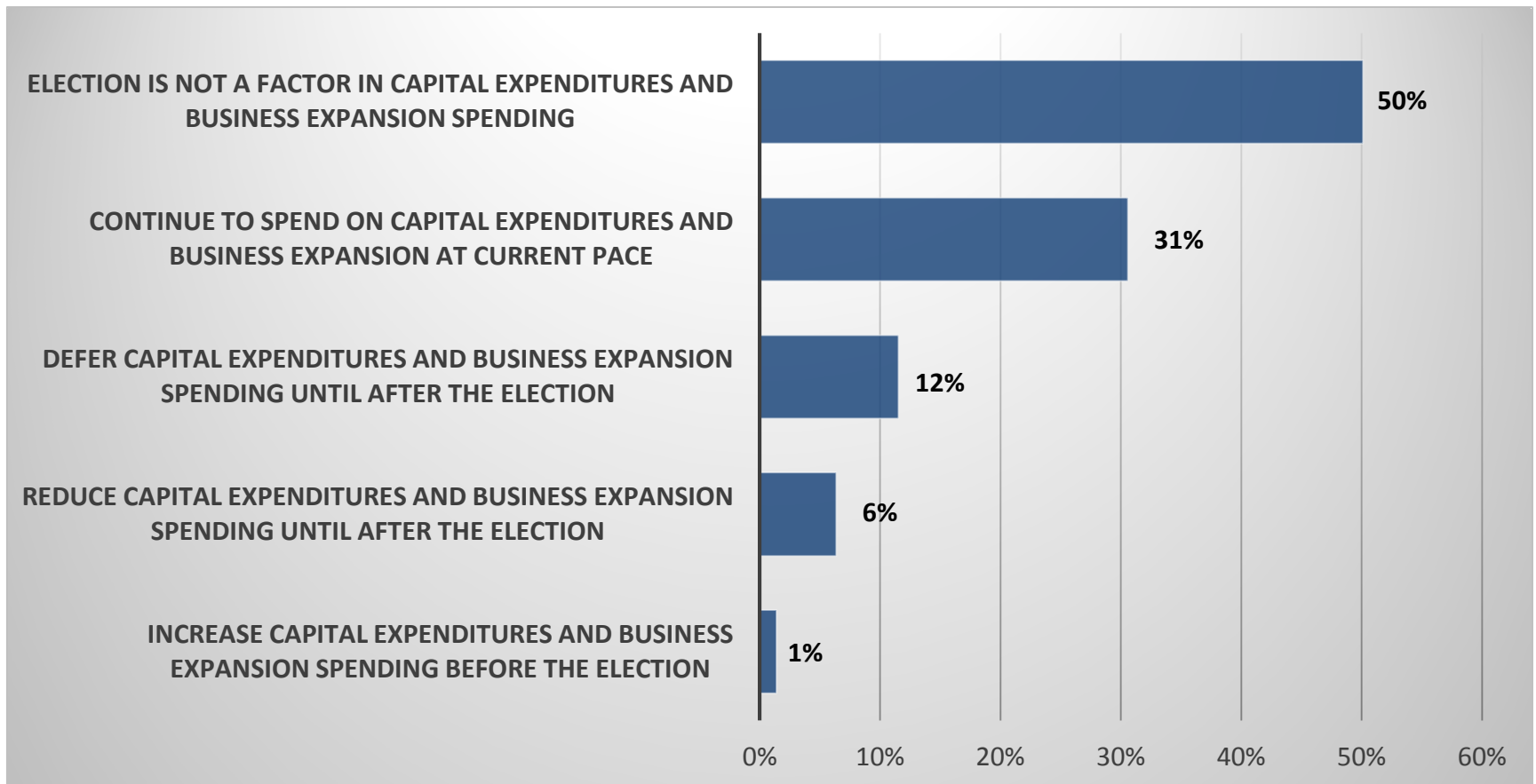
Presidential Election – Job Creation & Hiring

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



Presidential Election – Expansion Plans

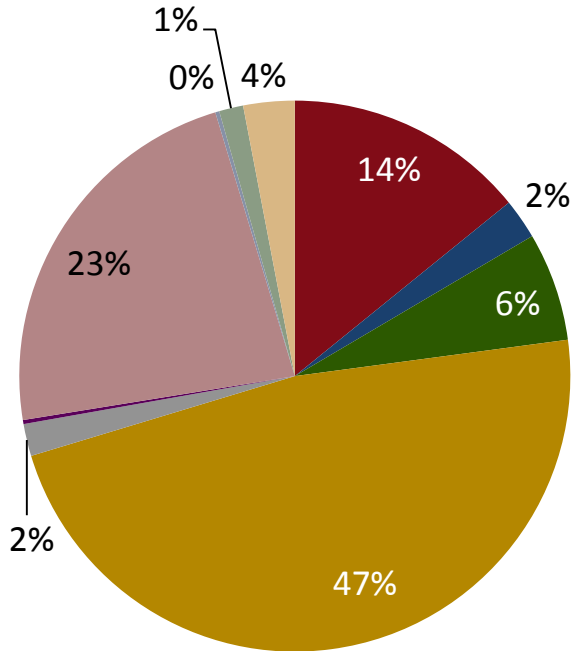
In anticipation of the election, what are your company's most likely actions concerning capital expenditures and business expansion, including borrowing and financing?



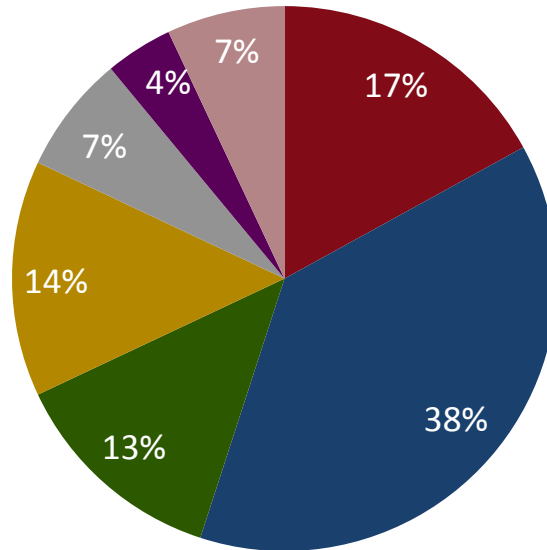
Demographics

Demographics

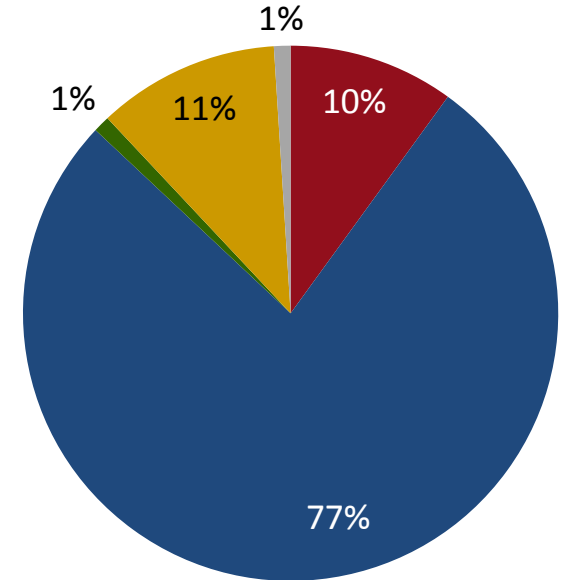
Position



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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