Association of International Certified Professional Accountants

Economic Outlook Survey

3rd quarter executive summary

The CPA Outlook Index

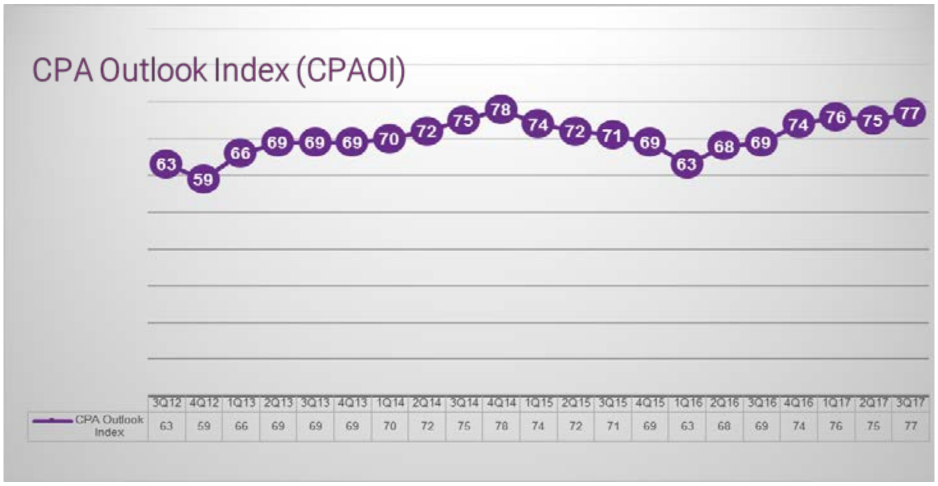
The CPA Outlook Index (CPAOI) is a broad-based indicator of the strength of U.S. business activity and economic direction that reflects the views of CPAs who are AICPA members in Business & Industry holding executive positions in both public and privately-owned organizations of all sizes, and across a broad spectrum of industries.

CPA Outlook Index

The CPA Outlook Index (CPAOI) increased 2 points to 77 in the third quarter of 2017. This is the highest total CPAOI since a 4Q 2014 peak at 78.

The index component for optimism about the U.S. Economy remained the same from 2nd quarter to third, still 19 points above 3Q 2016.

Organization optimism, revenue and profit indicators showed increases, expansion remained the same. Employment constant with Q2, Other capital spending up 5 points over 2nd quarter.



	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
CPA Outlook Index	63	59	66	69	69	69	70	72	75	78	74	72	71	69	63	68	69	74	76	75	77

A reading above 50 indicates a generally positive outlook with increasing activity.

A reading below 50 indicates a generally negative outlook with decreasing activity.

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Component	3Q16	4Q16	1Q17	2Q17	3Q17	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	58	76	79	77	77	→00	↑19
Organization Optimism	68	74	77	76	78	↑02	↑10
Expansion Plans	72	74	77	76	76	→00	↑4
Revenue	75	78	81	79	83	↑04	↑8
Profits	69	74	74	72	77	↑05	↑8
Employment	66	68	71	72	72	→00	↑06
IT Spending	75	77	78	80	81	↑01	↑06
Other Capital Spending	71	73	71	72	77	↑05	↑06
Training & Development	70	71	73	73	74	↑01	↑04
Total CPAOI	69	74	76	75	77	↑02	↑8

CPA Outlook Index

The CPAOI 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 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:

U.S. 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%].

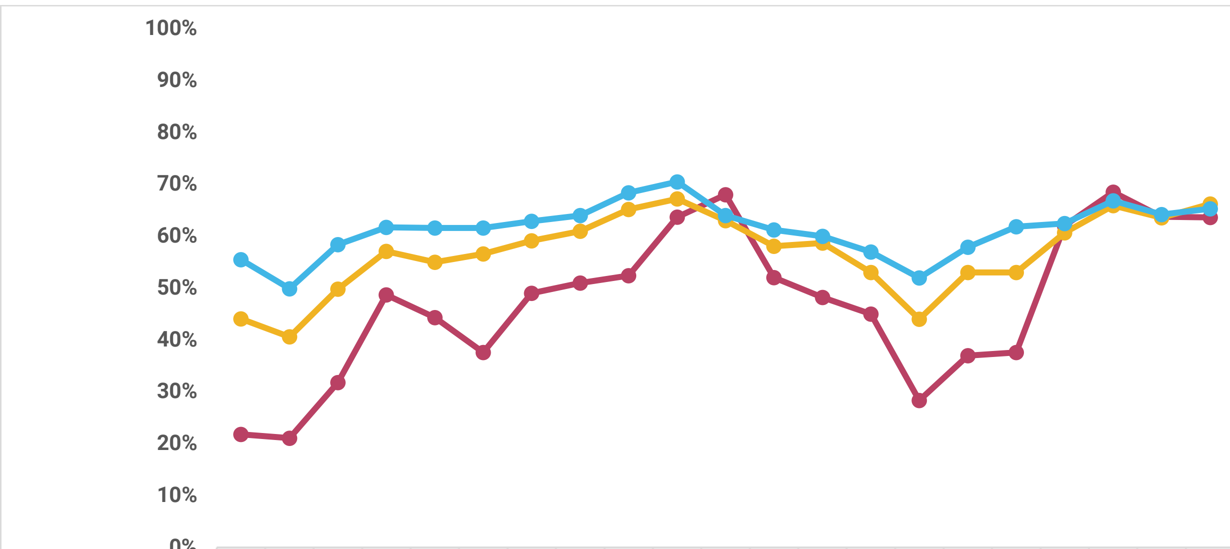
Outlook for the U.S. Economy and Organizations

Optimism for the U.S. Economy remains constant with Q2

The number of CPA executives who are optimistic about the U.S. economy remained at 64% in the third quarter. Optimists site general strength of many economic indicators. While both optimists and pessimists cite dysfunctional politics, hope for reduced regulation and tax reform continues.

Organizational optimism increased from 64% to 66%, returning to its first quarter level. The percentage of companies with expansion plans also recovered a point to 65% in the third quarter, after dropping from 67% to 64% in the second quarter of 2017.

Outlook for the U.S. Economy, Organizations & Expansion



	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
U.S.	22%	21%	32%	49%	44%	38%	49%	51%	52%	64%	68%	52%	48%	45%	28%	37%	38%	62%	69%	64%	64%
Organization	44%	41%	50%	57%	55%	57%	59%	61%	65%	67%	63%	58%	59%	53%	44%	53%	53%	61%	66%	64%	66%
Expansion	56%	50%	58%	62%	62%	62%	63%	64%	68%	71%	64%	61%	60%	57%	52%	58%	62%	62%	67%	64%	65%

Concerns about inflation also dropped another 5% in the third quarter, declining from 33% concerned about inflation in the first quarter of 2017 and to 31% in the second quarter of 2017. Only 5% are concerned about deflation, staying consistent with the second quarter.

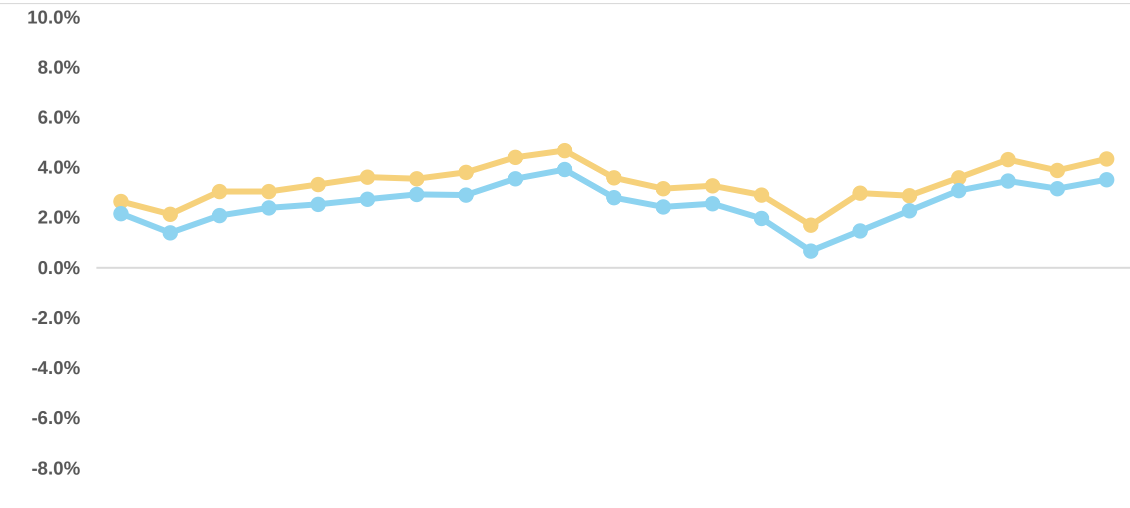
Labor costs continue to be the most pressing concern for 44% of respondents, increasing from 42% in the second quarter. Raw material cost concerns increased two points to 27%, up from 25% last quarter. Interest rate concerns fell from 22% to only 15%. Energy cost concerns also eased another 2 points to only 6%.

Key Performance Indicators

Revenue and profit projections both show significant increases

Expectations for increased revenues for the coming 12 months recovers to the 4.3% level seen in the first quarter after losing four tenths in the second quarter. Expectations for profits in the coming year also bounce back to the Q1 level of 3.5% after falling to 3.2% in Q2.

Expectations for Revenue and Profits



	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Revenue	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%	2.9%	3.6%	4.3%	3.9%	4.3%
Profit	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%	2.3%	3.1%	3.5%	3.2%	3.5%

IT continues to be the strongest category of planned spending over the upcoming twelve months, improving another two tenths, from an expected rate of increase of 3.2% to 3.5%. Other capital spending plans also increased in the second quarter from 2.8% to 3.3%. Both IT spending and other capital spending rates are post-recession highs. Spending for training and development also improved another point, to 2.1%, up from 1.8% in the first quarter, and 2.0% in the second quarter. Plans for spending on marketing held constant at 1.8%, but plans for R&D spending also jumped to a post-recession high of 2.0%.

Salary and benefits costs, while being displaced from its place at the top of the list of business challenges, inched up another two tenths this quarter, from 2.2% to a 2.4% expected rate of increase. Expected healthcare cost increases which continue to be higher than other costs, jumped to 6.3%, up from 5.6% in Q1, and 5.5% in Q2.

The expected increase in “other input prices” eased back down a tenth to 2.4% as in the first quarter. The expected ability to increase “prices charged” remained consistent with the first quarter and second quarter at 1.9%.

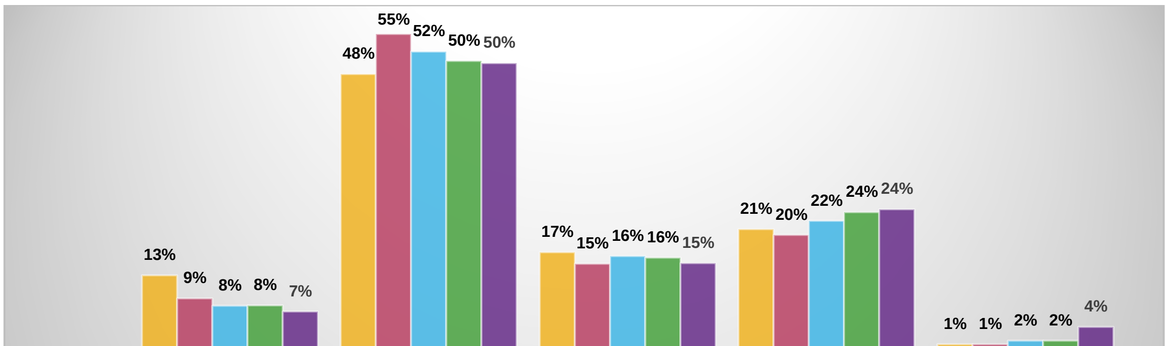
Hiring Plans

While some continue to have concerns, hiring plans continue to improve

In this quarter as in last, 50% of all companies say they have the appropriate number of employees. Those saying they have an excess number of employees eased a point to 7%.

This quarter, 39% now indicate that they currently have too few employees, down from 40% last quarter. Of these, the percentage of companies that are planning to hire stayed the same at 24%. The percentage of those who are reluctant to hire dropped a point in the third quarter to 15%, the same level as we saw in the fourth quarter of 2016.

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
3Q16	13%	48%	17%	21%	1%
4Q16	9%	55%	15%	20%	1%
1Q17	8%	52%	16%	22%	2%
2Q17	8%	50%	16%	24%	2%
3Q17	7%	50%	15%	24%	4%

Employment plans by business size, however, are somewhat mixed:

- For employers with > $1 billion in revenues, 35% have too few employees. Of these, 21% have plans to hire; 14% are hesitant.
- Employers with revenues < $10 million are also mixed; while 35% have too few employees, only 18% are planning to hire; 17% are hesitant.
- In the $10 - $100 million range, 28% of the total of 44% with too few employees have plans to hire; only 16% are hesitant.
- Similarly, of the 39% of those in the $100 million to $1 billion category who say they have too few employees, 28% are hiring, and only 11% are hesitant.

Industry, Region and Business Size Outlook

Retail rebound eases; optimism recovers for technology, construction, and real estate

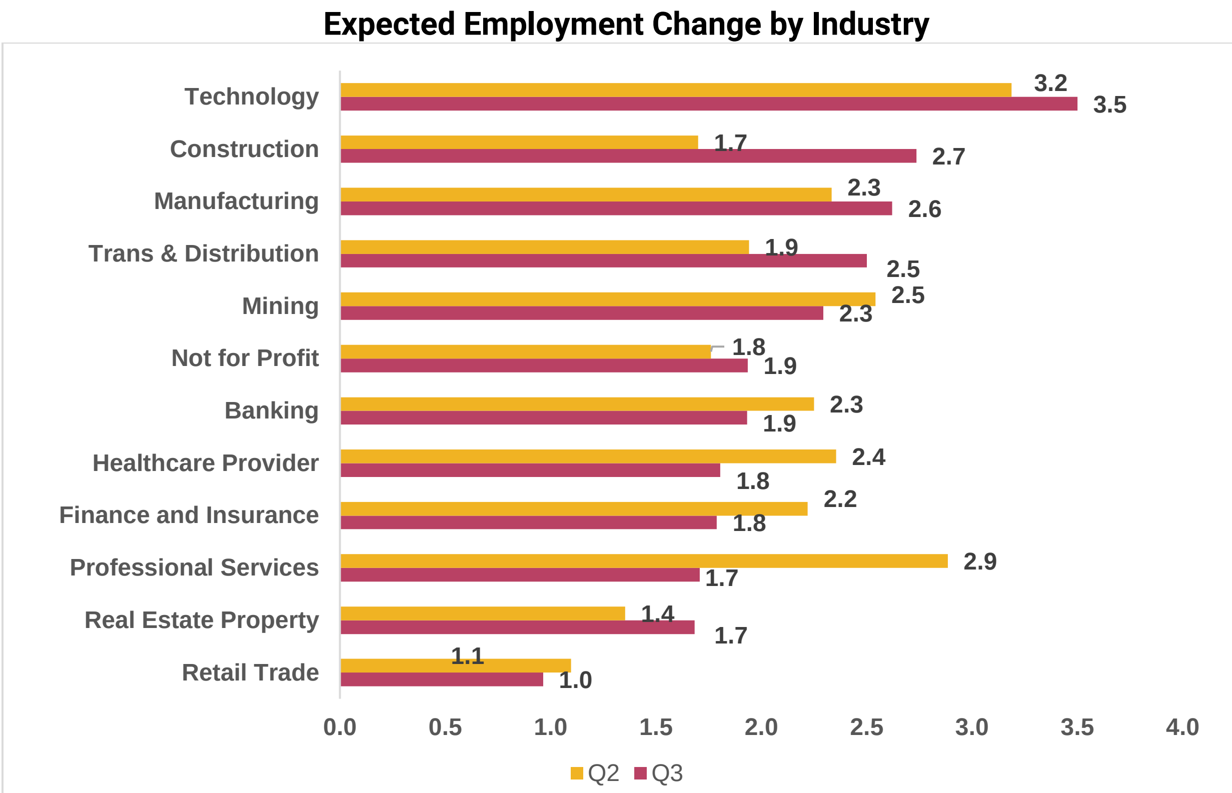
Retail trade optimism fell back to 52% after rebounding to 58% in quarter 2. Retail hiring continues to be soft, easing from 1.1% in the second quarter to 1.0% in the third quarter. Wholesale trade optimism, however, recovered to 81% optimistic this quarter, from only 57% in the second quarter.

Manufacturing optimism eased from 66% in the second quarter to 63% this quarter. However, hiring in the manufacturing sector improved, increasing from 2.3% in the second quarter to 2.6% in the third quarter.

Construction optimism recovered from 66% to 69% in the third quarter. The expected increase in construction headcount also rebounded to 2.7%, up from 1.7% in the second quarter. Real Estate optimism also rebounded to 78% after falling to 63% in the second quarter.

Technology optimism recovered from 56% in the second quarter to 64% in the third quarter; technology hiring continues to lead the pack at an expected rate of 3.5%. Professional Service optimism declined another 12 points to 50% this quarter; hiring also eased from 2.9% in the second quarter to 1.7% in the third quarter. Finance and Insurance optimism improved from 64% last quarter to 65%.

Healthcare provider optimism continued its improvement to 56%, up from 52% in the second quarter of 2017. Healthcare-other optimism recovered to 67% after falling to 60% in the second quarter.



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

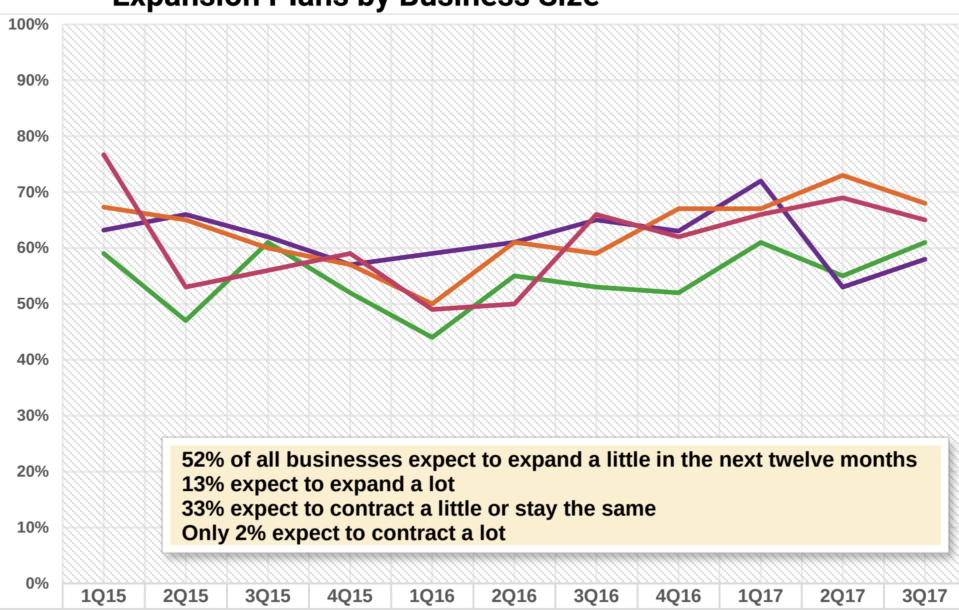
Regional optimism and expansion plans by business size show mixed results

In terms of regional perspective, the Midwest jumped to a 74% level of optimism, up from 65% in the second quarter. The South recovered 3 points in the third quarter to 68%, up from 65% optimistic in second quarter. Optimism in the West eased another point, dropping from 62% to 61%. The Northeast eased slightly from 60% to 59% optimistic.

Expansion plans and hiring plans by size of company were similarly mixed:

- The number of companies with revenues < $10 million having expansion plans jumped back to 61%, matching the 61% in the first quarter
- Expansion plans for the $10-$100 million range of companies improved to 58%, up 5 points from 53% in the second quarter
- The $100 million to <$1 billion range of companies dropped from 73% to 68% in Q3
- The percentage of companies with revenues > $1 billion having expansion plans also dropped from 69% in the second quarter to 65% now indicating they have expansion plans for the coming year

Expansion Plans by Business Size



	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
< $10 million	59%	47%	61%	52%	44%	55%	53%	52%	61%	55%	61%
$10 to <$100 million	63%	66%	62%	57%	59%	61%	65%	63%	72%	53%	58%
$100 million to <$1 billion	67%	65%	60%	57%	50%	61%	59%	67%	67%	73%	68%
> $1 billion	77%	53%	56%	59%	49%	50%	66%	62%	66%	69%	65%

Top Challenges

Employee costs and availability continue to be challenging; regulatory concerns gain another slot

- Availability of skilled personnel moved up another notch to the top of the list
- Regulatory requirements/changes regained the second slot
- Domestic competition jumped to third, and Domestic economic conditions maintained the fourth ranking
- Employee and benefit costs fell from the top slot to fifth; Staff turnover fell to tenth after jumping from ninth in Q1 to sixth in Q2
- Developing new products/services moved up another slot from the seventh to the sixth slot
- Changing customer preferences moved from tenth to eighth
- Stagnant/returning markets returned to the top ten at the seventh rank slot
- Domestic political leadership maintained its ninth place ranking

Top Challenges Facing Organizations

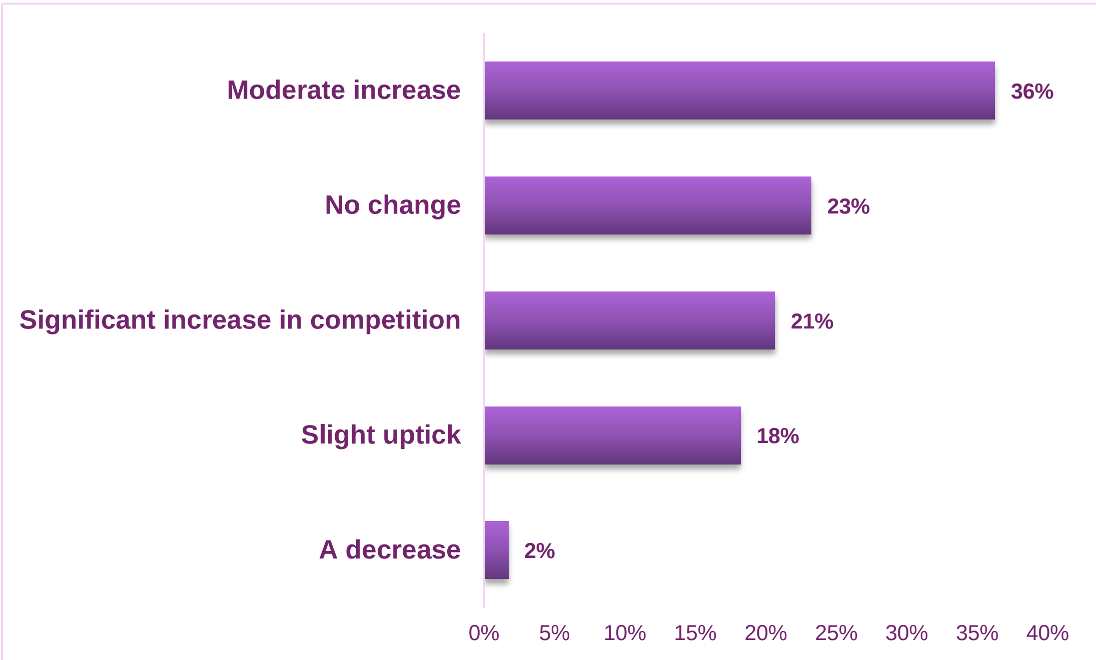
	3Q16	4Q16	1Q17	2Q17	3Q17
1	Regulatory requirements/changes	Regulatory requirements/changes	Employee and benefits costs	Employee and benefits costs	Availability of skilled personnel
2	Domestic economic conditions	Employee and benefits costs	Regulatory requirements/changes	Availability of skilled personnel	Regulatory requirements/changes
3	Availability of skilled personnel	Domestic economic conditions	Availability of skilled personnel	Regulatory requirements/changes	Domestic competition
4	Domestic competition	Availability of skilled personnel	Domestic economic conditions	Domestic economic conditions	Domestic economic conditions
5	Employee and benefits costs	Domestic competition	Domestic competition	Domestic competition	Employee and benefits costs
6	Stagnant/declining markets	Developing new products/services/markets	Changing customer preferences	Staff Turnover	Developing new products/services/markets
7	Domestic political leadership	Domestic political leadership	Domestic political leadership	Developing new products/services/markets	Stagnant/declining markets
8	Liquidity	Changing customer preferences	Developing new products/services/markets	Materials/supplies/ equipment costs	Changing customer preferences
9	Developing new products/services/markets	Stagnant/declining markets	Staff Turnover	Domestic political leadership	Domestic political leadership
10	Financing (access/cost of capital)	Staff Turnover	Materials/supplies/ equipment costs	Changing customer preferences	Staff Turnover

Survey within the Survey

Competition for Talent

When asked about the market for candidates for their skilled positions, a majority of respondents indicated they have seen an increase in the level of competition. The impact on their business was that a majority have had to settle for less than the ideal candidate, one in five had lost out on top candidates, and 7% have had important jobs open for extended periods of time.

Shortage of Skilled Positions



Effects on Businesses

- 20% of respondents had lost out on top candidates
- 7% have had important jobs open for extended periods of time
- 52% have had to settle for less than ideal candidates

Survey within the Survey
What businesses are doing to compete

In order to address this competition for talent, more than a third are offering higher salaries and 17% are offering other financial incentives. Businesses are also promoting talent from within and doing more in-house training.

- Over a third (34%) of respondents are offering higher salaries to attract top talent
- 17% are offering other financial incentives such as 401(k) match, employee stock options or an enhanced benefit package
- Businesses are also using other methods to overcome the challenges of a tighter job pool:
    - 40% are promoting from within
    - 26% are doing more in-house training
    - 21% are working to create more precise job descriptions for skilled positions

Survey Background

The survey was conducted of AICPA Business & Industry members between August 1-16, 2017, and had 775 qualified respondents.

CFOs comprised 46% of the respondents, 21% were Controllers, 10% were CEOs or Presidents, 11% were VP/SVPs, 2% were Directors, 2% were COOs, and 2% were CAOs; the remainder were other executives.

Seventy-one percent of respondents came from privately owned entities, 14% from publicly listed companies, and 13% from not-for-profits.

Eleven percent came from organizations with annual revenues of $1 billion or more, 27% from organizations with $100 million to under $1 billion in annual revenues, 46% from organizations with $10 million to $100 million and 17% from organizations with under $10 million in revenues.

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