



AICPA

Business and Industry

Economic Outlook Survey

Detailed Survey Results — 4Q 2013

Survey Background

- **Conducted between November 5 and November 25, 2013**
- **Quarterly Survey**
- **CPA decision makers (primarily CFOs, CEOs and Controllers)**
- **AICPA members in Business & Industry only**
- **1,164 total responses, 1,118 qualified responses**

Survey Highlights

■ CPA Outlook Index maintains it's high watermark

- Overall index holds at 69; matching previous post recession highs
- US economy optimism index component falls another 6 points in 4Q to 56 on lingering concerns about political gridlock, regulation and healthcare reform
- Despite concerns about the US economy, the organization optimism index improved from 71 to 73 in 4Q
- Technology returns as most optimistic sector, along with manufacturing and construction showing improvement; retail falls off in both optimism and hiring plans

■ Improvement continues in key indicators

- Revenues and profits show improvement, plans for spending increases also up from prior year levels, headcount plans up year-to-year, but soften in 4Q

■ Hiring plans soften slightly

- Roughly a third (32%) of companies have too few employees
- The number of companies with too few employees that are planning to hire decreased from 15% in Q3 to 13% in Q4 2013;
- 19% of companies with too few employees continue to be reluctant to hire

CPA Outlook Index (CPAOI)

CPA Outlook Index

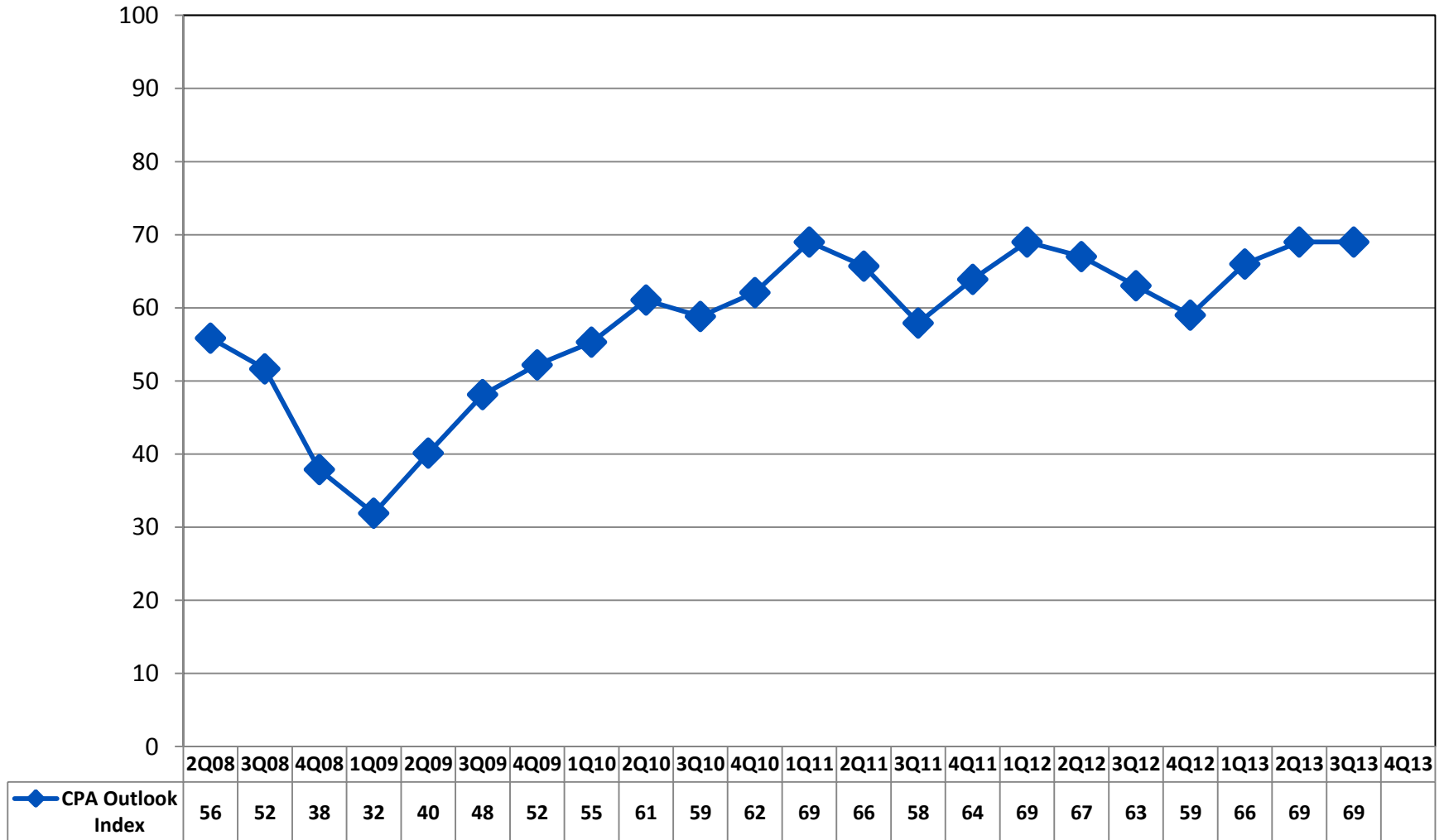
The CPA Outlook Index is a robust measure of sentiment about the U.S. economy that is supported by the unique insight and knowledge that CEOs, CFOs, Controllers, and other CPA executives have about the prospects for their own organizations, their expectations for revenues and profits, and their plans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

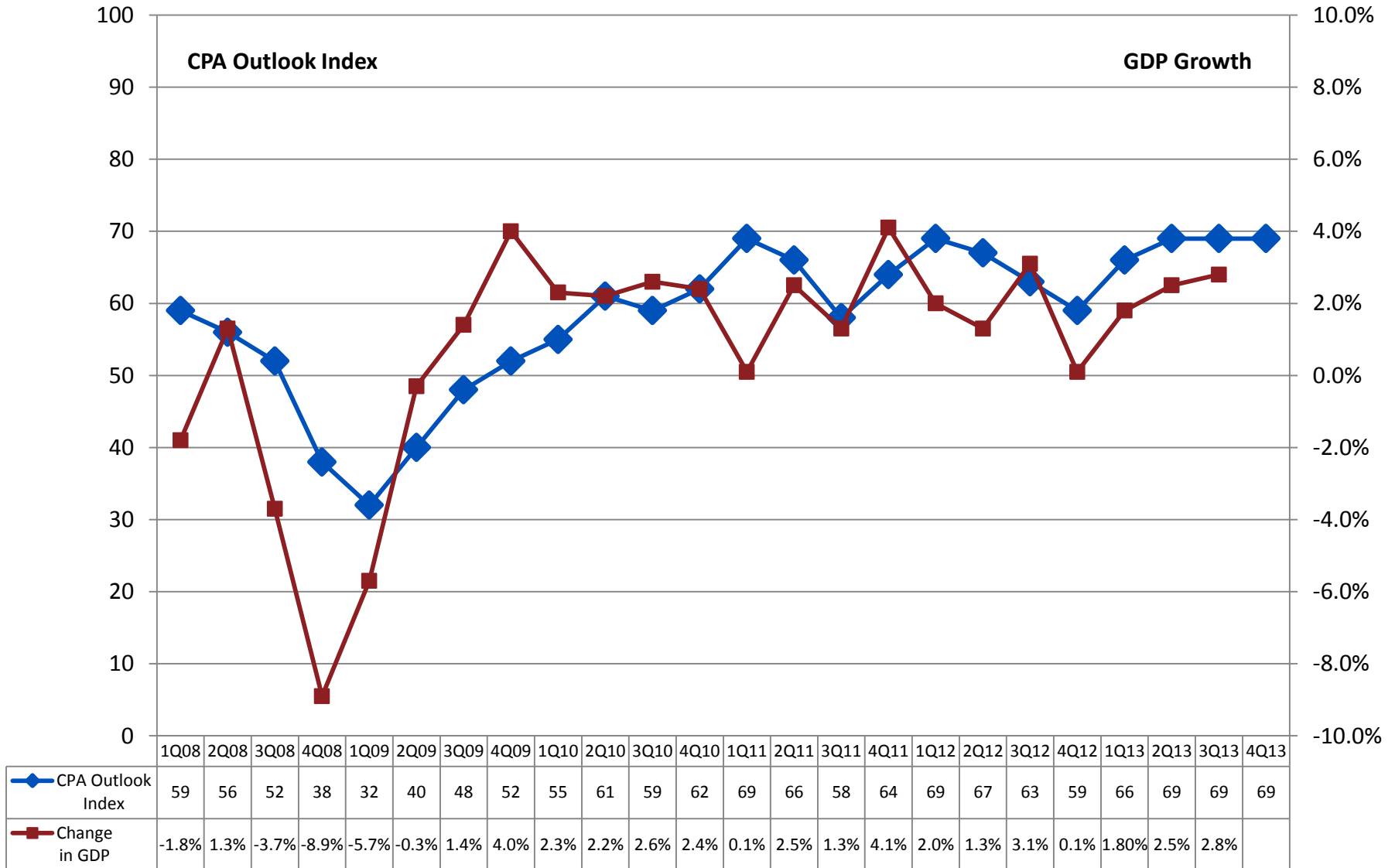
CPA Outlook Index (CPOAI)



CPA Outlook Index Component Indicators

Component	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	61	54	41	36	50	66	62	56	↓ 06	↑ 20
Organization Optimism	72	70	64	61	67	72	71	73	↑ 02	↑ 12
Expansion Plans	74	72	69	64	70	72	74	74	→ 00	↑ 10
Revenue	76	74	72	68	72	74	76	77	↑ 01	↑ 09
Profits	69	69	66	60	65	67	68	69	↑ 01	↑ 09
Employment	64	62	59	55	61	62	64	64	→ 00	↑ 09
IT Spending	75	74	72	69	74	75	75	76	↑ 01	↑ 07
Other Capital Spending	67	67	64	61	66	67	68	69	↑ 01	↑ 08
Training & Development	66	65	62	59	65	66	65	67	↑ 02	↑ 08
Total CPAOI	69	67	63	59	66	69	69	69	→ 00	↑ 10

CPA Outlook Index (CPAOI) vs GDP



U.S. & Organization Outlook

Outlook for the U.S. and Organizations

■ Optimism for the U.S. Economy declines again

- Optimism about the US Economy fell from 49% in Q2 to 44% in Q3 and 38% in Q4 in response to the government shut-down and continuing concern about political gridlock
- Consumer spending was most frequently cited by optimists as factors in their opinion; political leadership, healthcare reform and the employment situation were cited by the neutral and pessimistic responses

■ Organizational optimism recovers and expansion plans remain constant

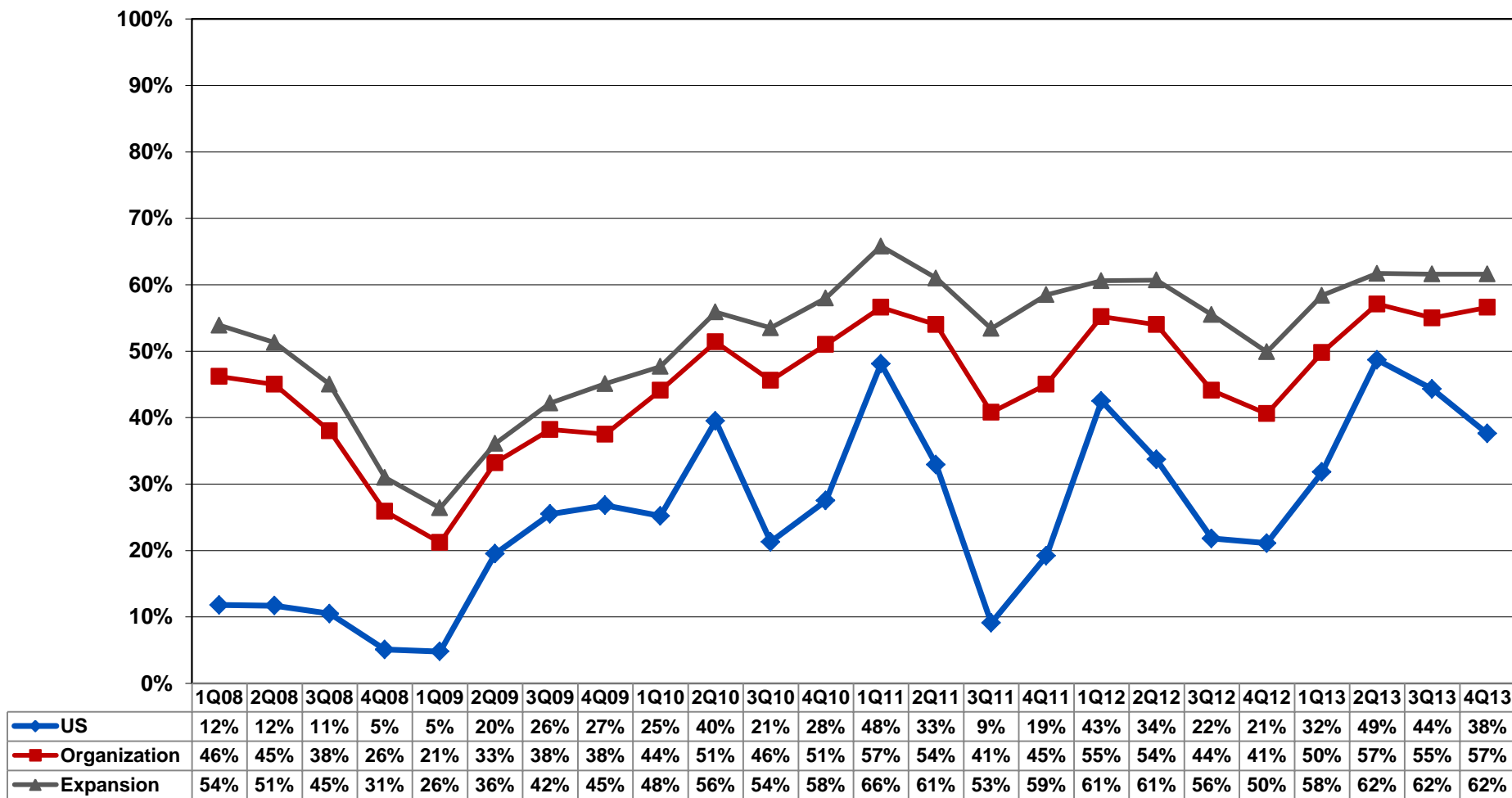
- Optimism about own company prospects recovered early 2013 gains to 57% in Q4 after falling to 55% in Q3
- The number of companies expecting their business to expand remained at 62%; with the exception of the Q1 “bounce” in 2011, these are the highest levels since 3Q 2007

■ Inflation concerns remain low

- Only 31% are concerned about inflation with labor costs and interest rates being the primary concerns
- Concerns about energy costs continue at relatively low levels with only 12% of respondents showing concern in Q4

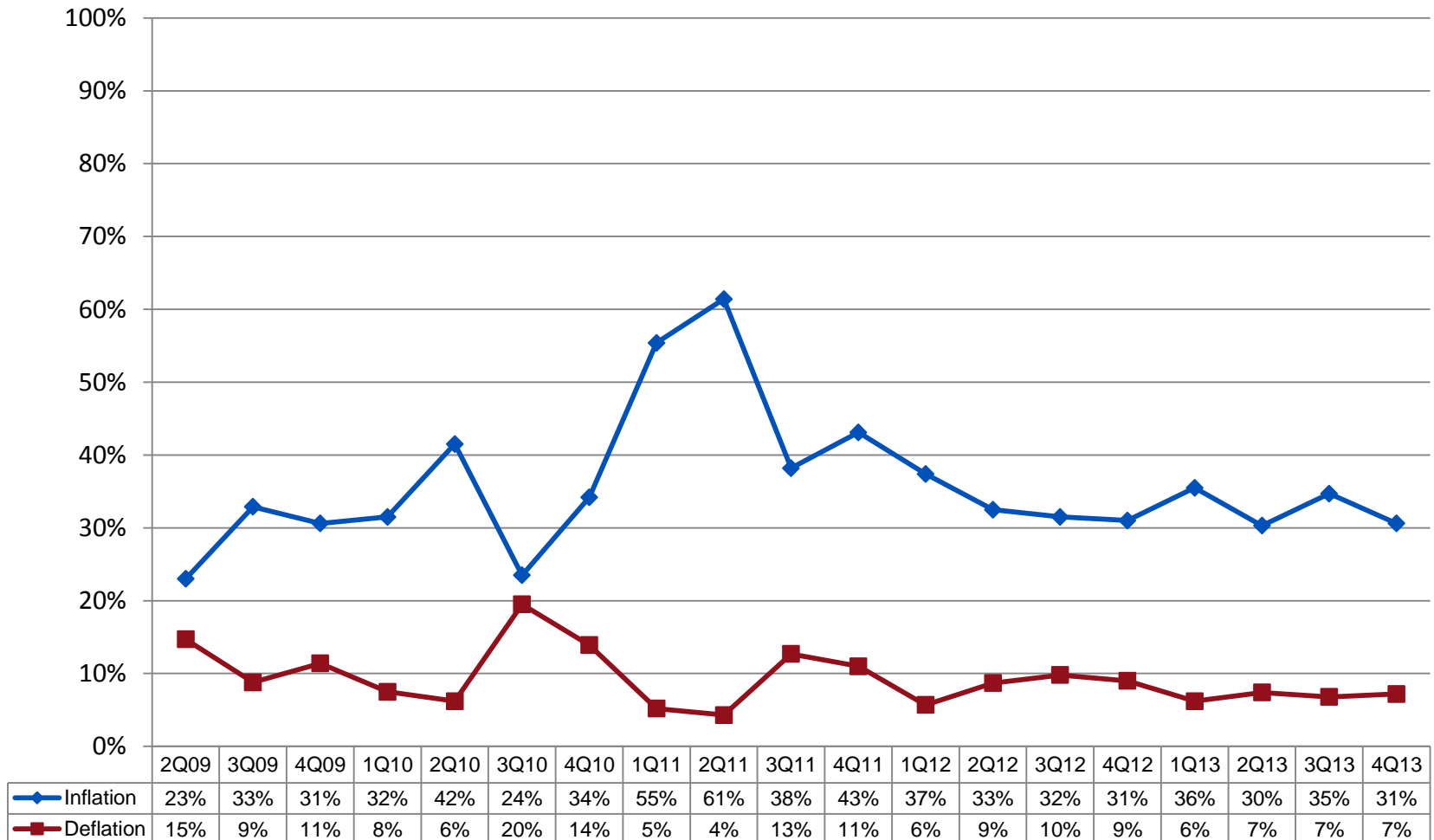
Optimism & Expansion

US, Organization, Expansion



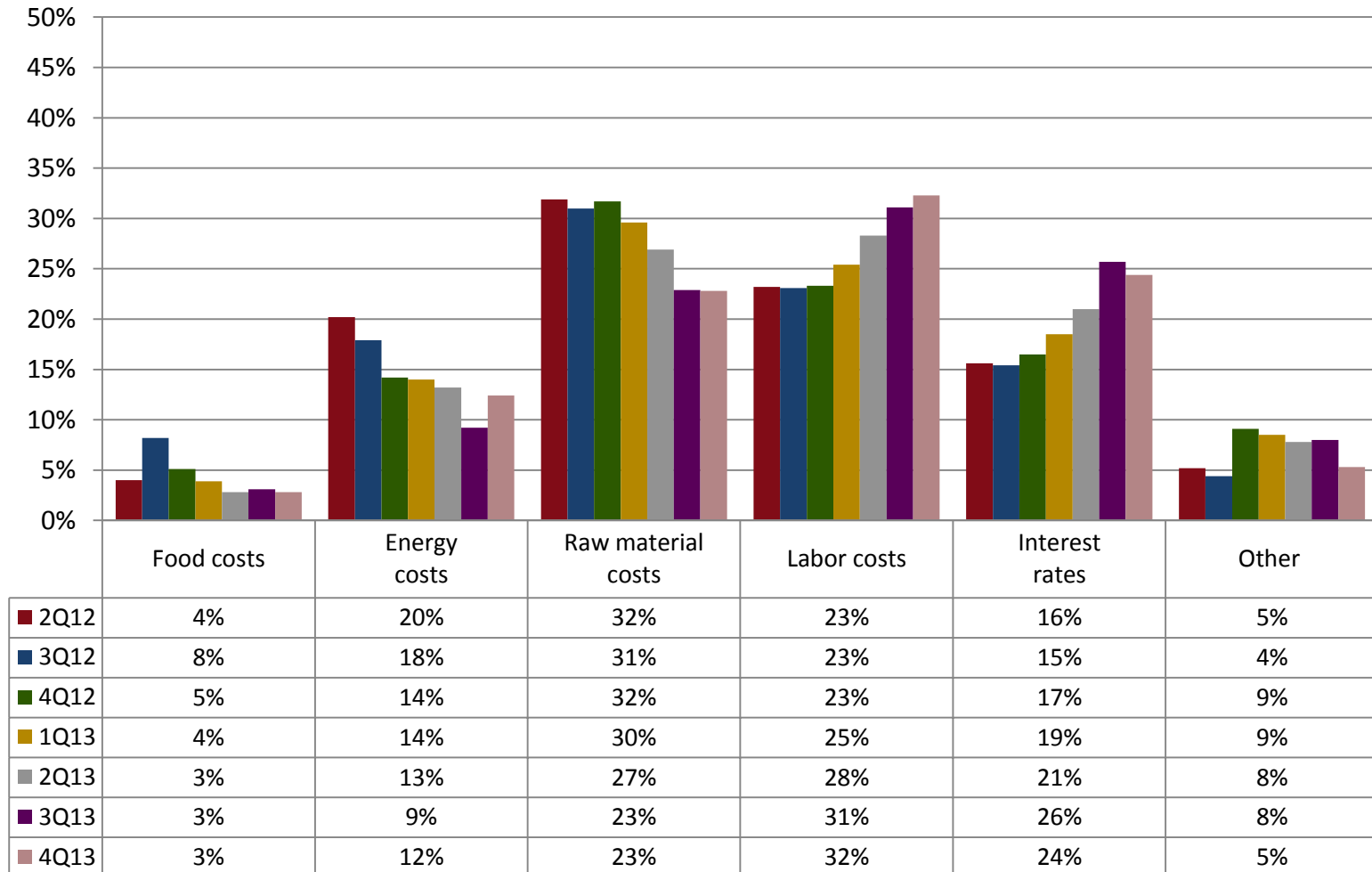
For your business, are you more concerned about inflation or deflation?

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

■ Outlook for revenue and profit improved from Q3 2013; headcount plans show less strength

- Revenues expected to increase at 3.6% rate; profits at 2.7%, both showing continued trend upward
- Headcounts expected to increase by 1.2% over the next year as compared with a projected increase of 1.3% in the 3Q 2013 survey

■ Expectations for healthcare cost increases ease slightly

- Prices charged are expected to increase by 1.3%, but continue to lag behind expected increases in input prices and salary and benefit costs of 1.8% and 2.2%, respectively
- Expected increases in healthcare costs eased to 6.6% in Q4 from 6.8% in Q3

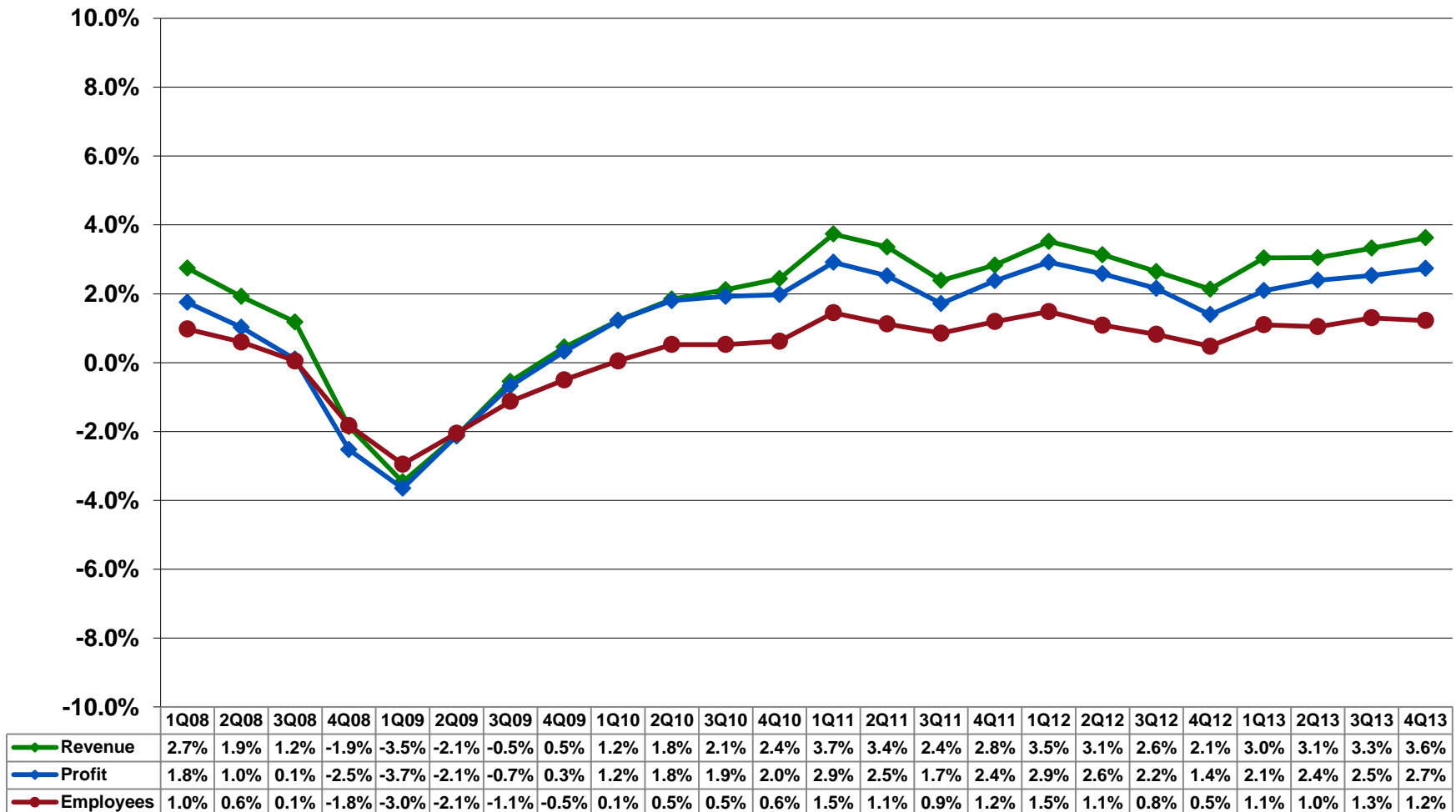
■ Spending plans remained relatively constant

- Increased spending for IT continues to be the strongest category of spending, improving in Q4 to 2.9%, a new post-recession high
- Expected increase in training spending also improved to a new high rate of 1.5%
- Other capital spending softened slightly from 2.2% to 2.1%
- Marketing spending and R&D spending increases remained constant at 1.5% and 1.0%, respectively

Key Performance Indicators

Expected Growth in Revenue, Profits and Number of Employees

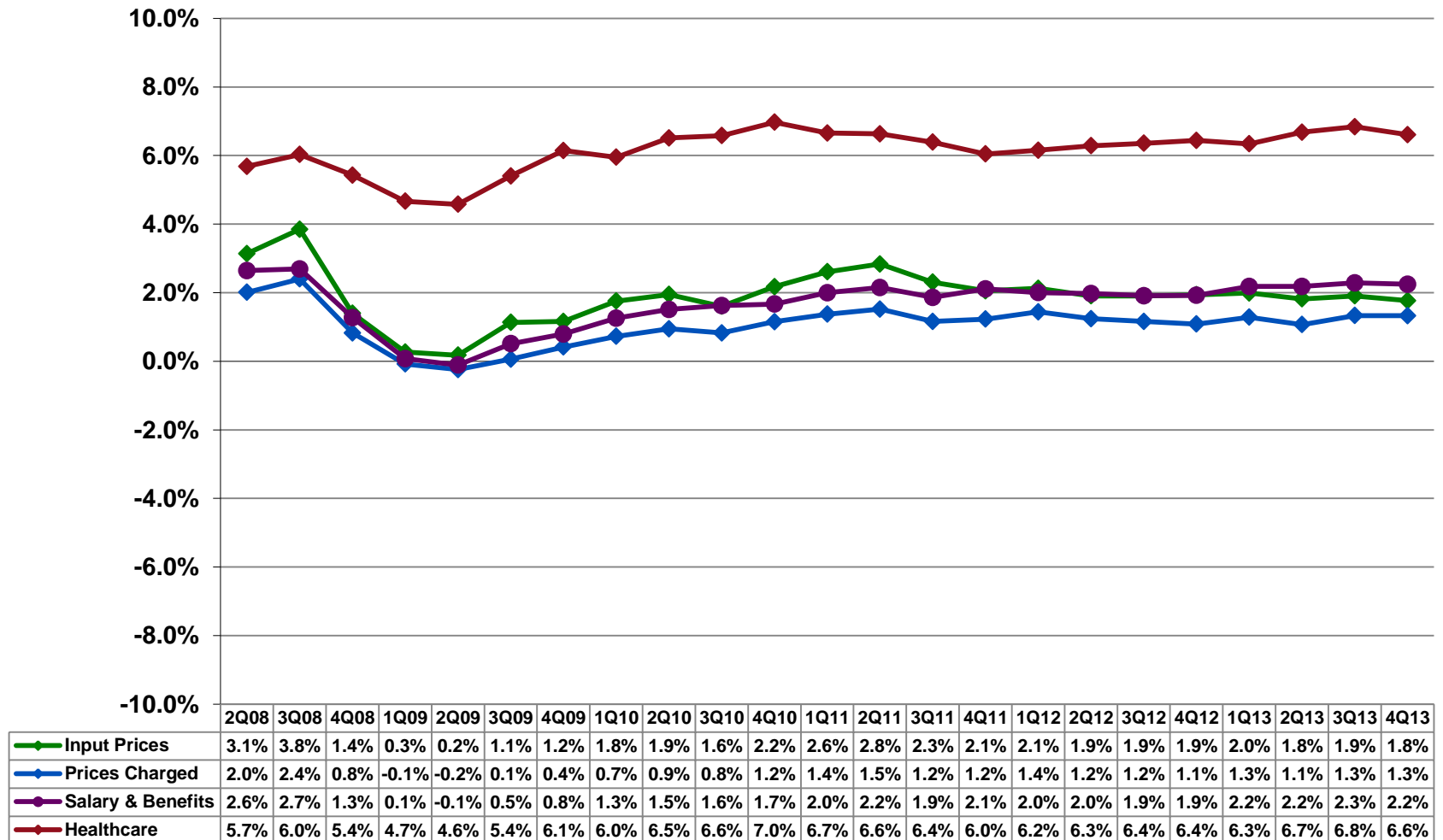
Thinking about the coming 12 months, please comment on the probable change for your organization for ...



Pricing & Costs

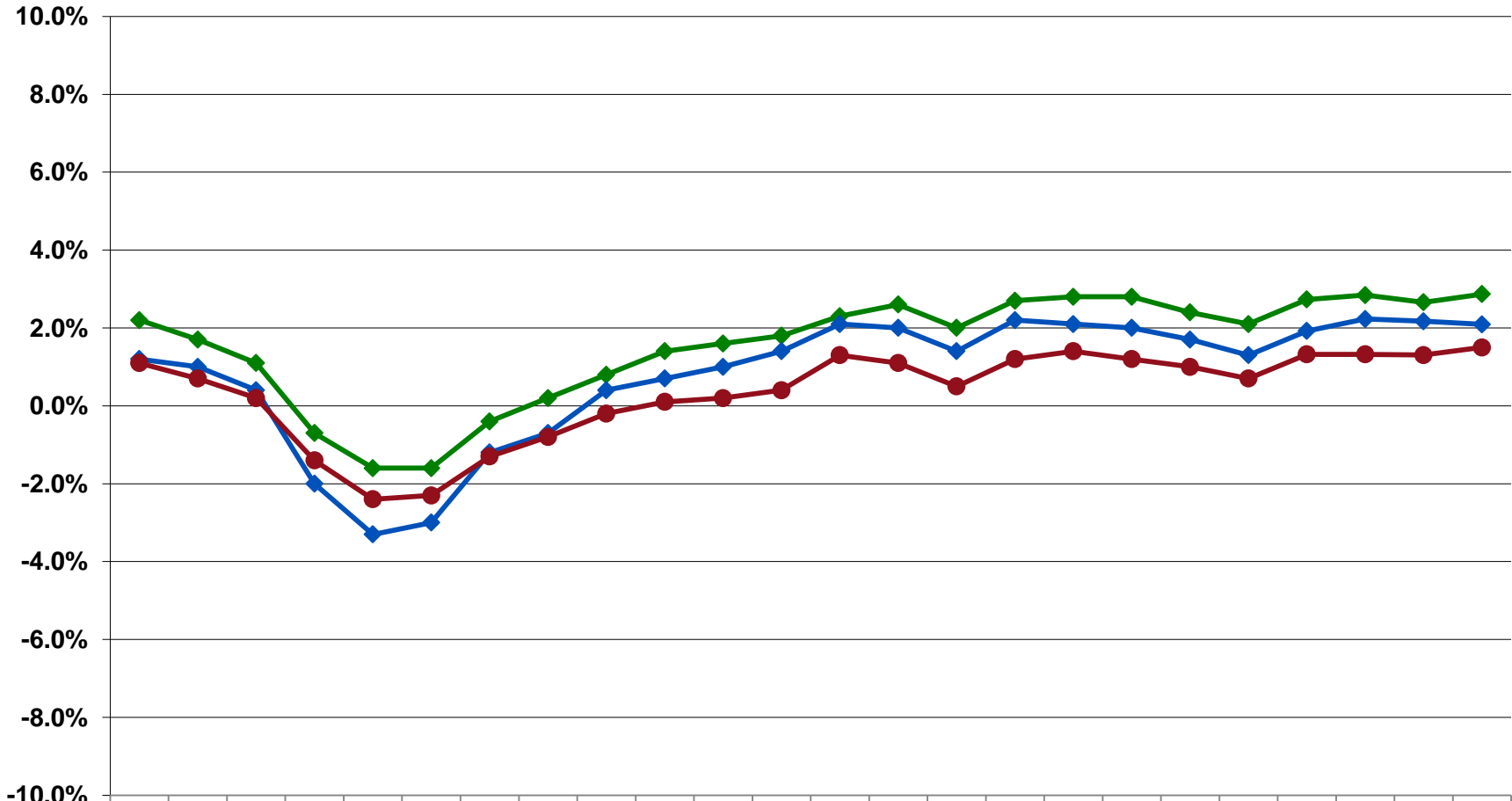
Average Change Expected

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



Spending Plans IT, Other Capital & Training

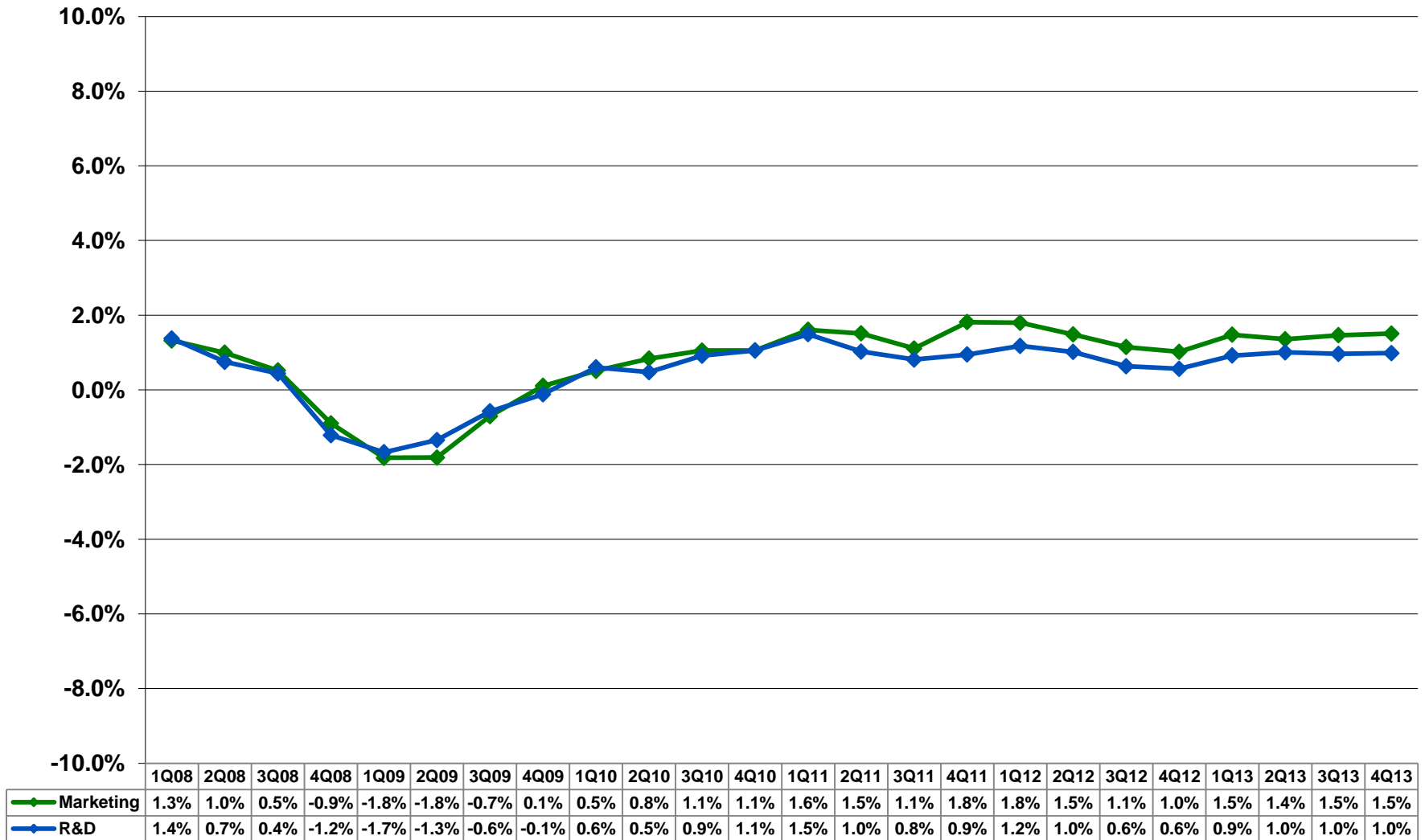
Thinking about the coming 12 months, please comment on the probable change for your organization for ...



	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
IT	2.2%	1.7%	1.1%	-0.7%	-1.6%	-1.6%	-0.4%	0.2%	0.8%	1.4%	1.6%	1.8%	2.3%	2.6%	2.0%	2.7%	2.8%	2.8%	2.4%	2.1%	2.7%	2.8%	2.7%	2.9%
Other Capital	1.2%	1.0%	0.4%	-2.0%	-3.3%	-3.0%	-1.2%	-0.7%	0.4%	0.7%	1.0%	1.4%	2.1%	2.0%	1.4%	2.2%	2.1%	2.0%	1.7%	1.3%	1.9%	2.2%	2.2%	2.1%
Training	1.1%	0.7%	0.2%	-1.4%	-2.4%	-2.3%	-1.3%	-0.8%	-0.2%	0.1%	0.2%	0.4%	1.3%	1.1%	0.5%	1.2%	1.4%	1.2%	1.0%	0.7%	1.3%	1.3%	1.3%	1.5%

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 soften slightly in Q4 2013

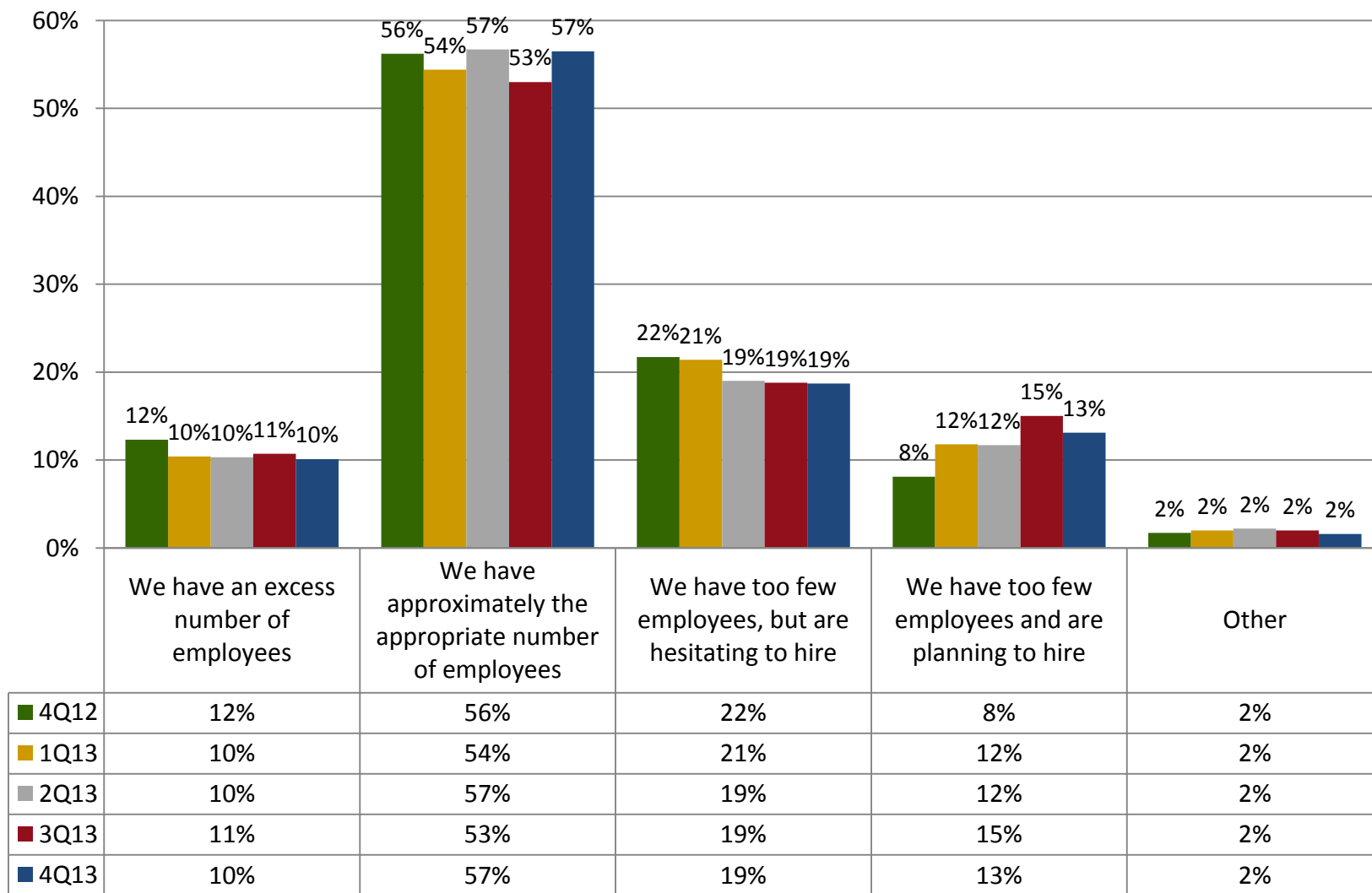
- Slightly more than half of all companies (57%) say they have the right number of employees
- In Q4 2013 only 10% say they have too many employees, relatively consistent with recent quarters
- Roughly a third (32%) have too few employees
 - The percent of companies reluctant to hire holds below 20% for a third straight quarter
 - However, the number of companies with too few employees that are planning to hire decreased from 15% in Q3 to 13% in Q4 2013

■ A majority of companies with hiring plans are targeting full-time employees (72%)

- 24% will hire both full-time and part-time or temporary workers
- 4% will hire primarily part-time or temporary workers

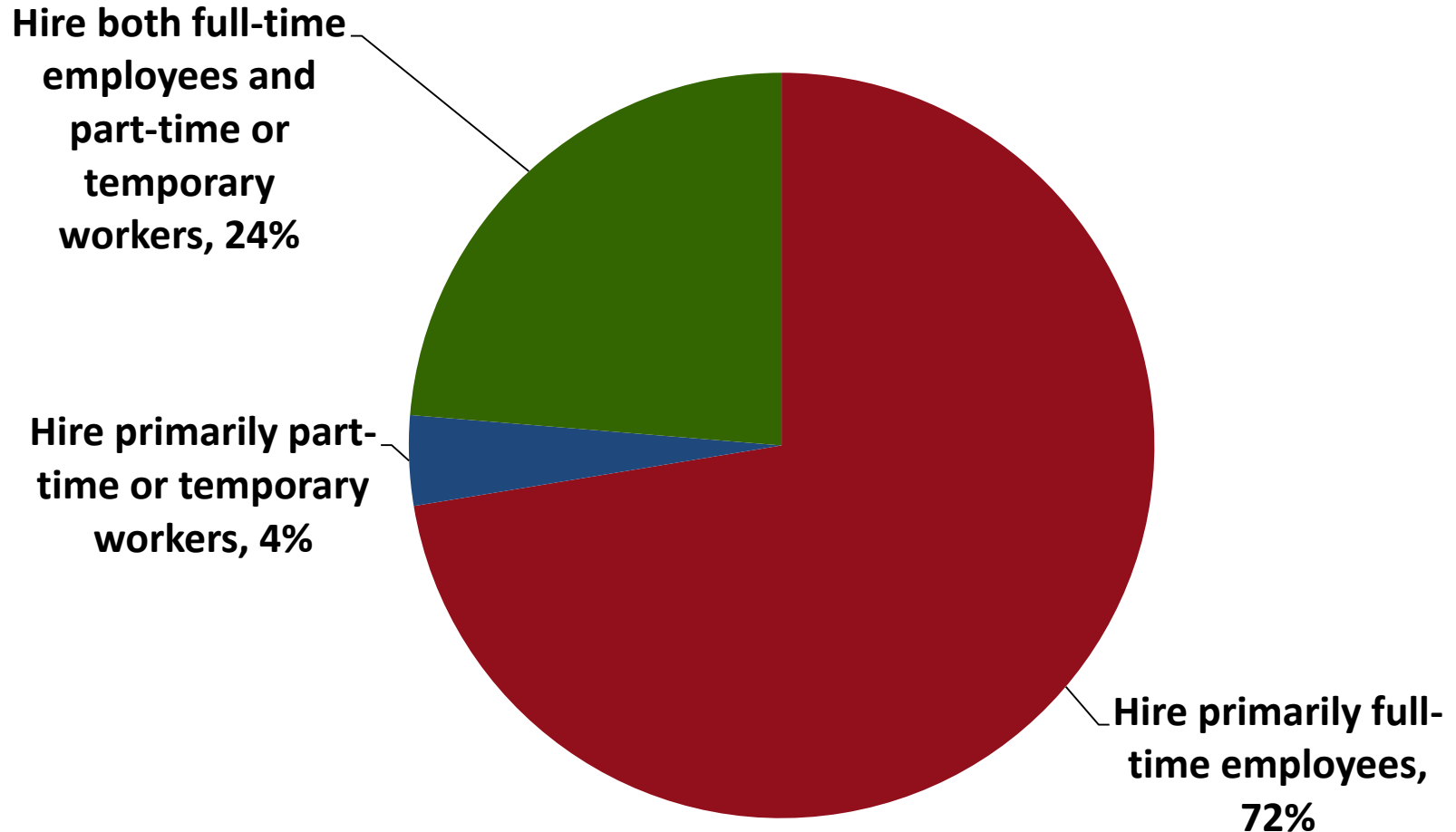
Overall staff situation relative to your needs

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)?



Overall hiring plans

For those with plans to hire...
Our hiring plans will be to hire:
(select one)



Liquidity

Liquidity

■ Liquidity and capital plans also soften in 4Q

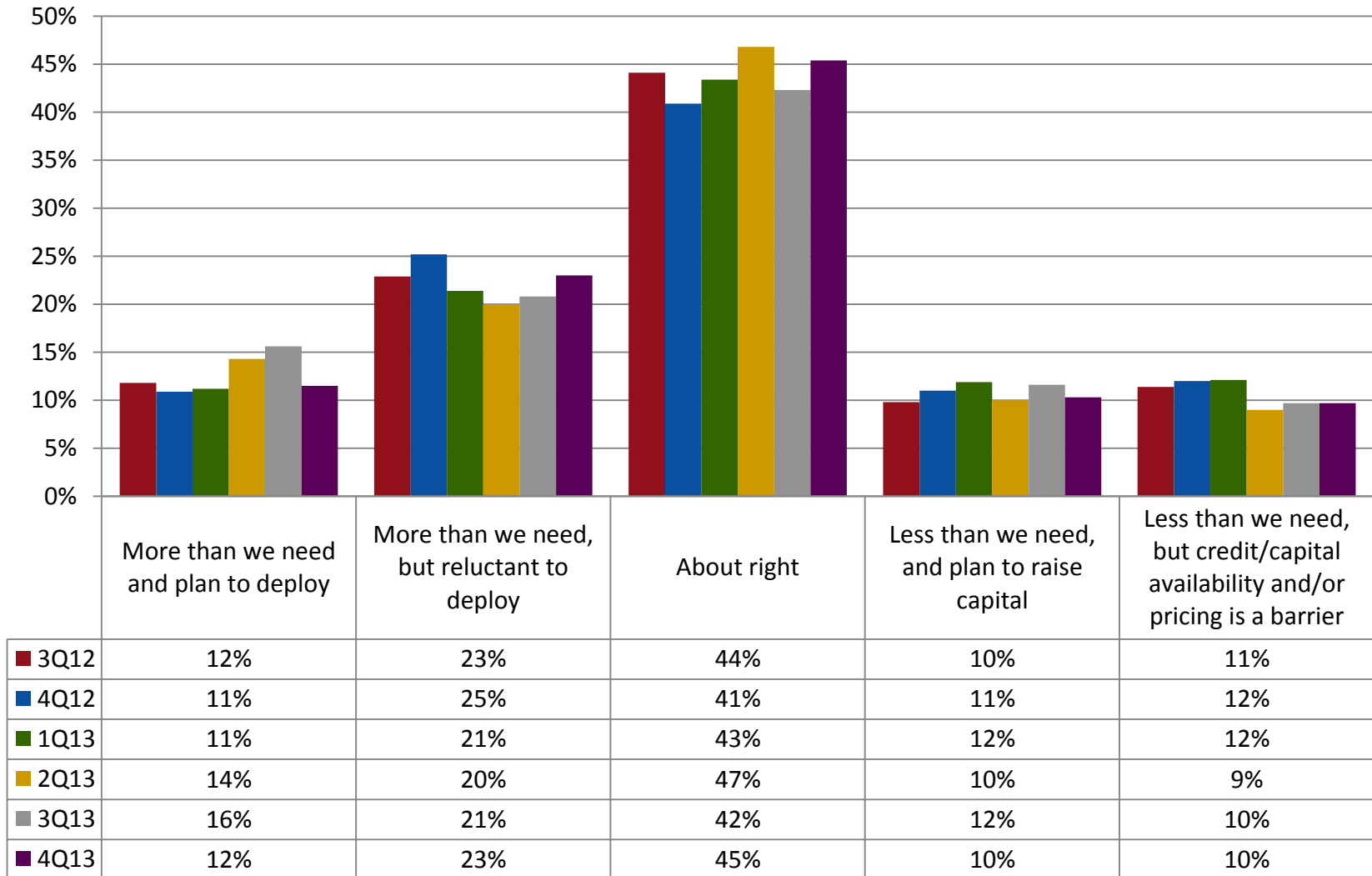
- The number of companies indicating they had about the right amount of liquidity increased from 42% to 45% in 4Q 2013
- The number indicating they had more than they needed and plan to deploy the excess fell from 16% to 12%;
- The number indicating reluctance to deploy their excess also grew, from 21% to 23%

■ Overall respondents expect credit availability to be essentially unchanged

- Overall, the number of companies expecting it to be more difficult to get necessary financing fell from 12% at 3Q 2013 to 9% at 4Q
- However, the percentage of large companies (> \$1bn) needing credit but expecting pricing or availability to be a barrier registered at 5% in 4Q, up from only 1% in 3Q 2013

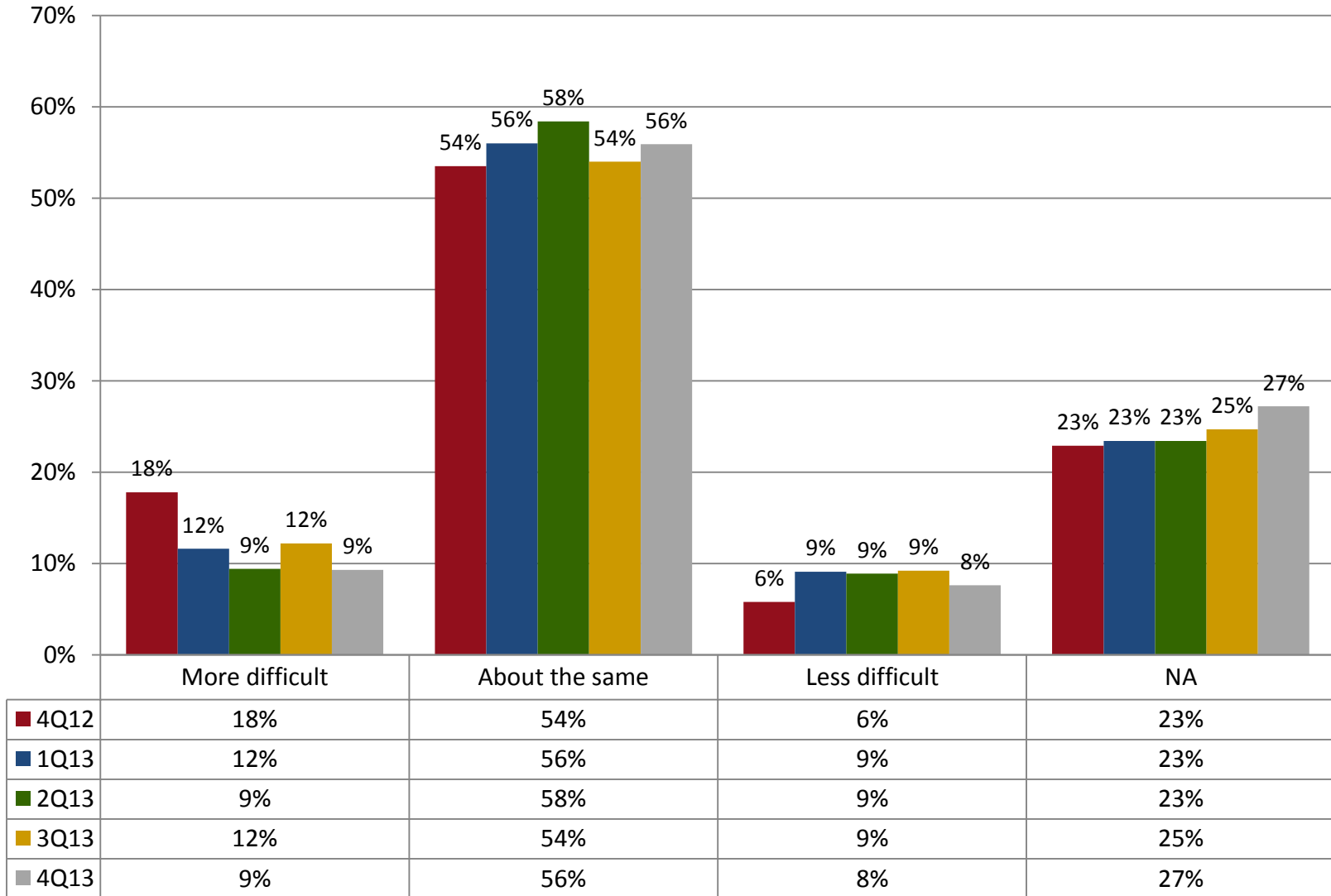
Cash & Liquidity Position

How would you characterize your organization's current liquidity position



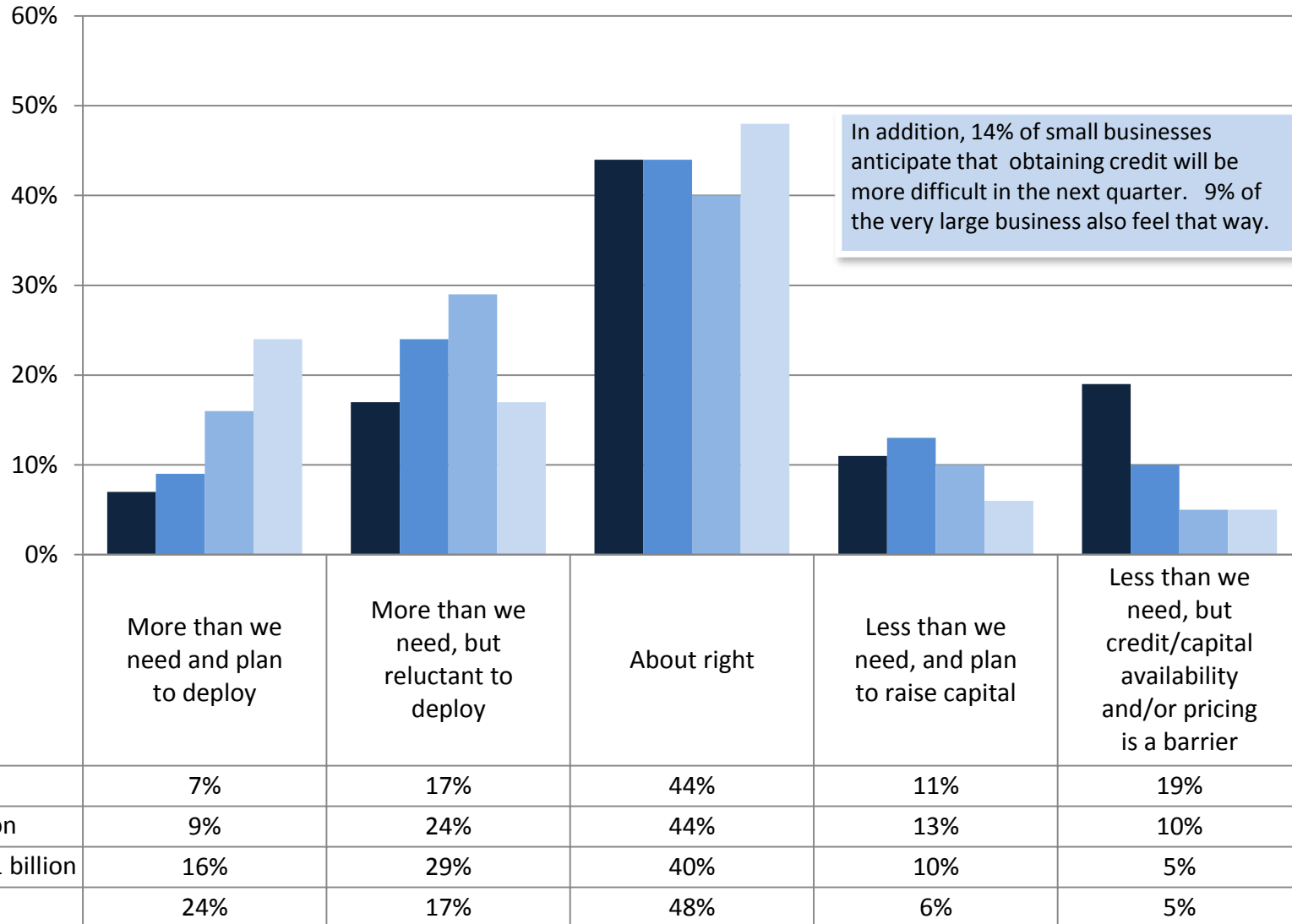
Difficulty Obtaining Required Financing

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 you characterize your organization's current liquidity position



Top Challenges

Top Challenges Facing Organizations

- Regulatory requirements/changes maintain their top ranking among organizational challenges
- Domestic economic conditions drops to #3 position after yielding the top spot in 1Q
- Employee and benefit costs advances from #3 to #2
- Domestic competition drops to #4 spot after rising steadily for the last year
- Stagnant/declining markets advances from #8 to #7, switching places with developing new products/services which moved from #7 to #8
- Changing customer preferences maintains its recently found place at #9
- Materials, supplies and equipment costs breaks into the top 10 while concern about global economic conditions recedes

Top Challenges for Organizations

Please indicate the top three challenges for your organization

4Q12	1Q13	2Q13	3Q13	4Q13
Domestic economic conditions	Domestic economic conditions	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes
Regulatory requirements/changes	Regulatory requirements/changes	Domestic economic conditions	Domestic economic conditions	Employee and benefits costs
Domestic political leadership	Employee and benefits costs	Employee and benefits costs	Employee and benefits costs	Domestic economic conditions
Employee and benefits costs	Domestic political leadership	Domestic competition	Domestic competition	Domestic political leadership
Stagnant/declining markets	Domestic competition	Domestic political leadership	Domestic political leadership	Domestic competition
Domestic competition	Stagnant/declining markets	Availability of skilled personnel	Availability of skilled personnel	Availability of skilled personnel
Global economic conditions	Availability of skilled personnel	Stagnant/declining markets	Developing new products/services/markets	Stagnant/declining markets
Availability of skilled personnel	Developing new products/services/markets	Developing new products/services/markets	Stagnant/declining markets	Developing new products/services/markets
Developing new products/services/markets	Global economic conditions	Changing customer preferences	Changing customer preferences	Changing customer preferences
Materials/supplies/equipment costs	Materials/supplies/equipment costs	Global economic conditions	Global economic conditions	Materials/supplies/equipment costs

Note: Challenge categories were modified in Q4 2011.

Outlook by

Industry, Region and Business Size

Industry, Region and Business-size Outlook

■ Optimism recovers in some key sectors – declines in retail

- Technology regained its spot as the most optimistic sector, with 69% of respondents now optimistic after declining to 56% in 3Q 2013
- Construction and manufacturing also show improved optimism; however, only 52% of retail respondents continue to be optimistic, falling from 64% in 1Q 2013
- Healthcare –other (50%), along with healthcare providers (37%), continue to be least optimistic at only
- Consistent with sentiments about prospects for their organizations-
 - Technology is expecting to expand hiring the most at 3.6%;
 - Retail is expecting to increase only 1.3%, down from Q3 expectation of a 1.8% increase

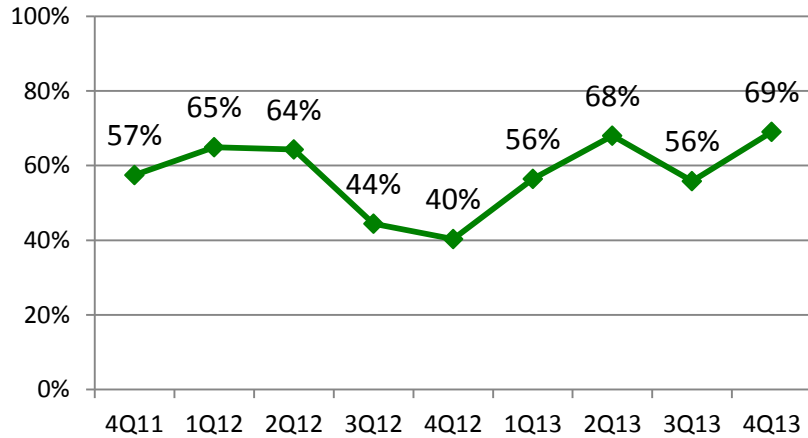
■ Optimism relatively consistent among regions

■ Expansion plans decline slightly among largest (>\$1bn) companies

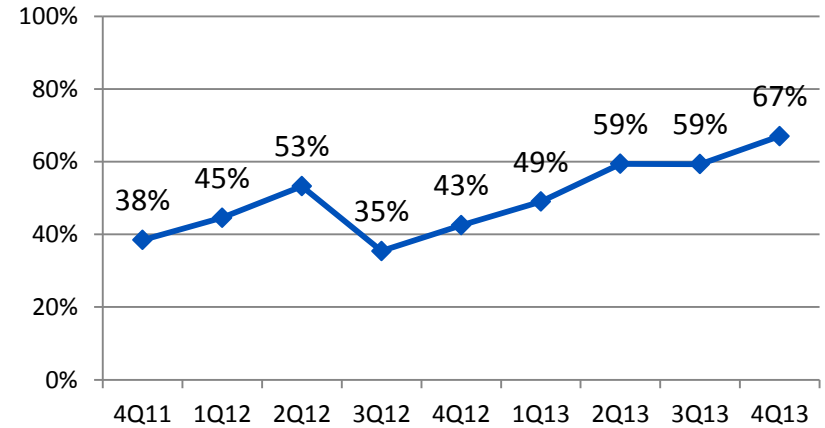
- Overall, 62% of companies expect to expand either a little or a lot over the next 12 months
- However, only 64% of companies with revenues > \$1 billion now expect to expand vs. 68% in each of the three previous quarters in 2013

Organization Optimism by Industry

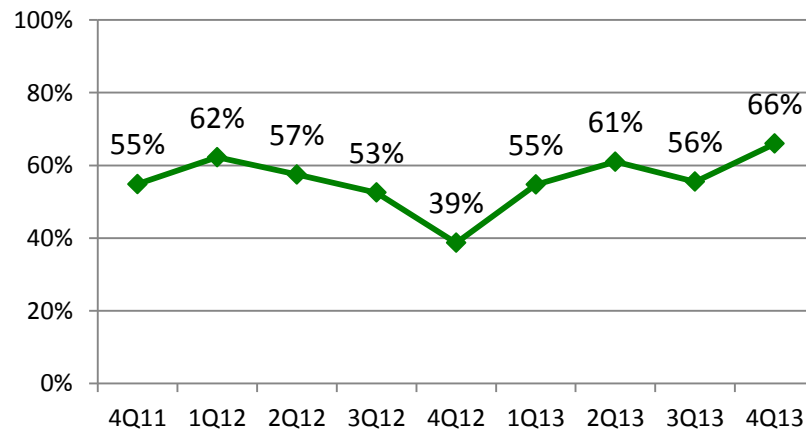
Technology



Construction

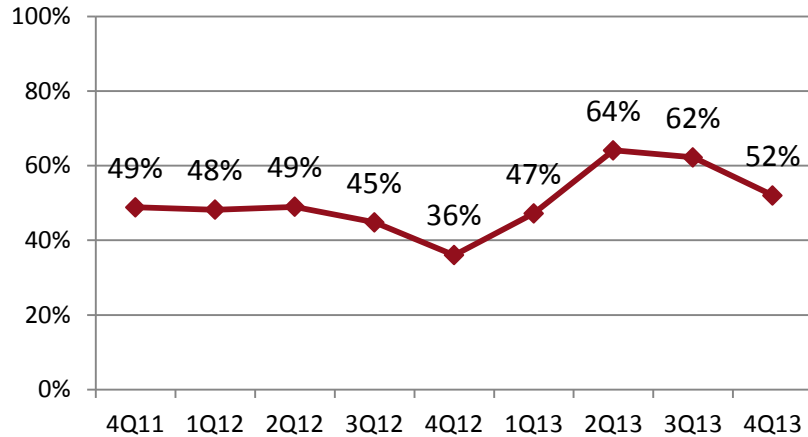


Manufacturing

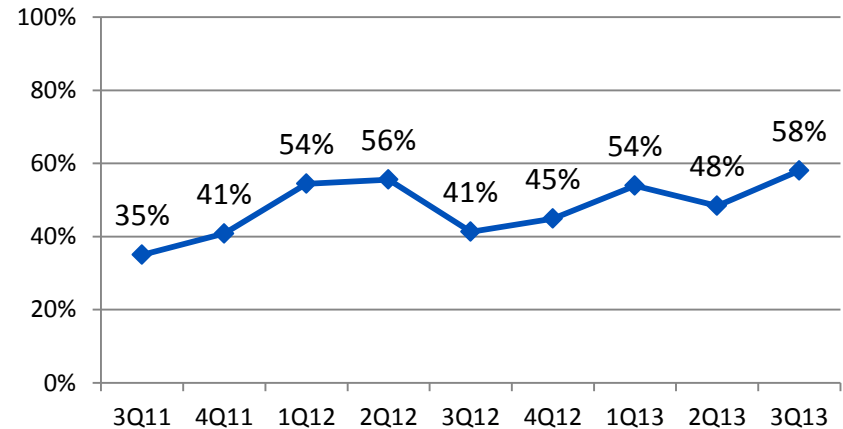


Organization Optimism by Industry

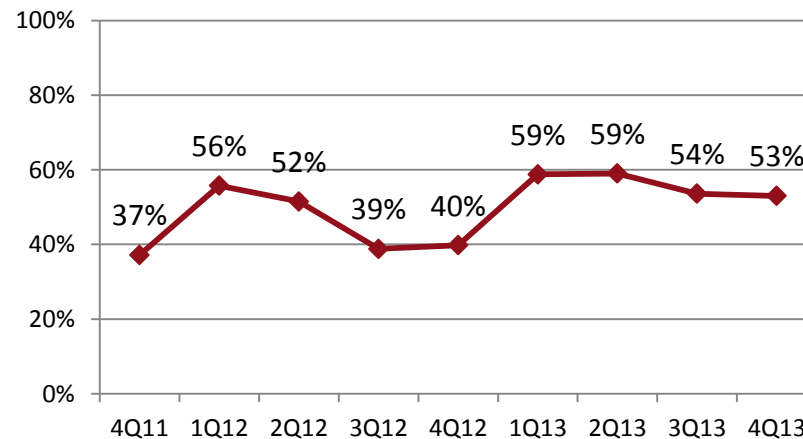
Retail Trade



Wholesale Trade

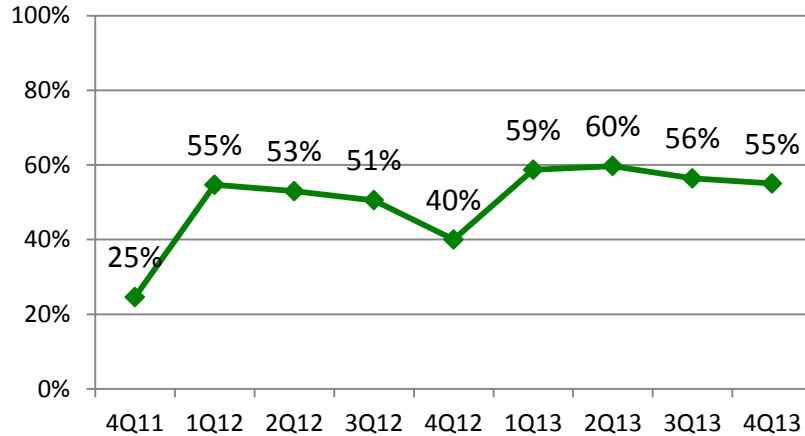


Professional Service

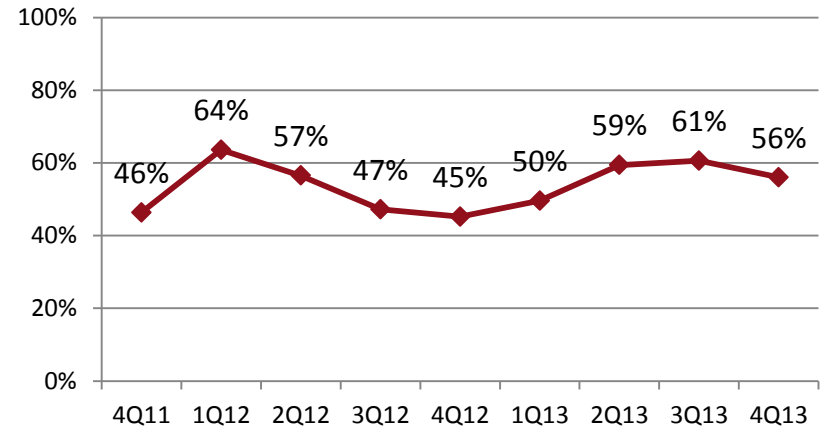


Organization Optimism by Industry

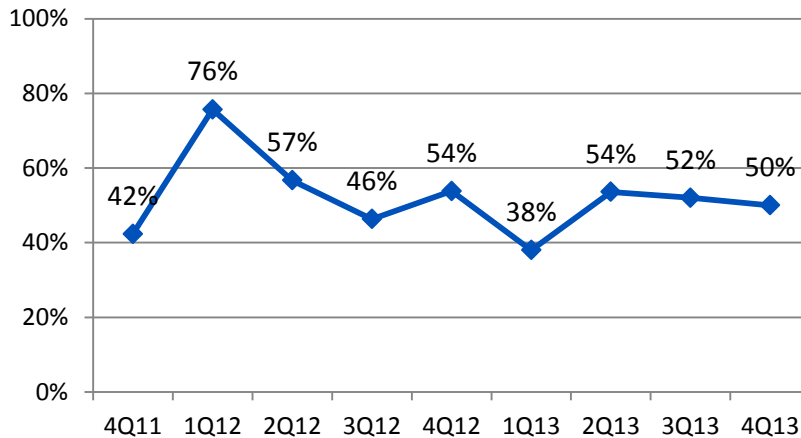
Real Estate



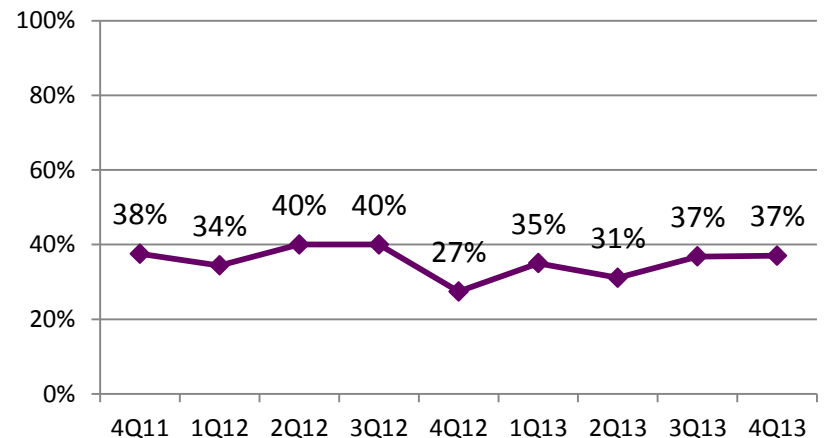
Finance & Insurance



Health Care Other

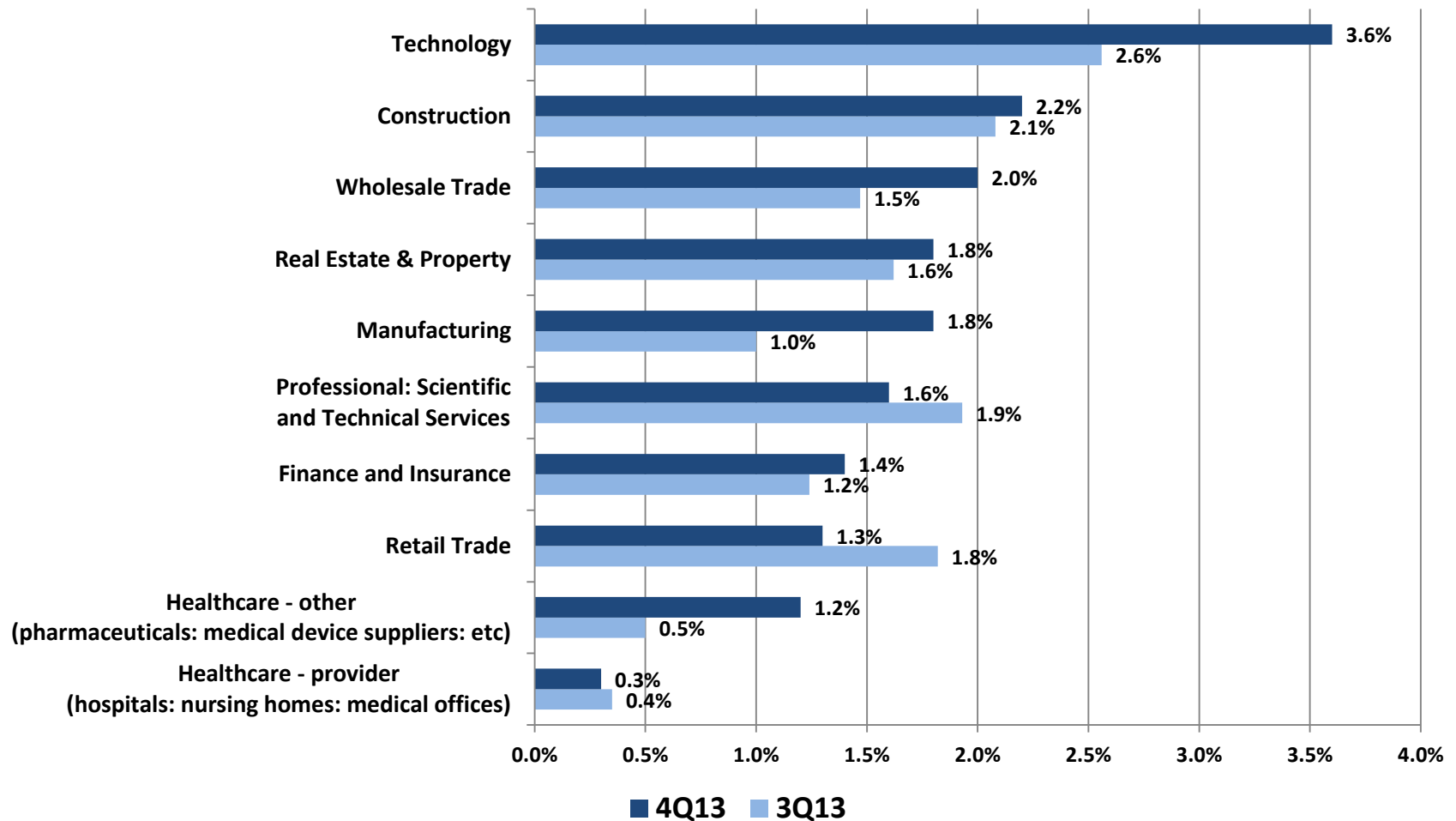


Health Care Provider



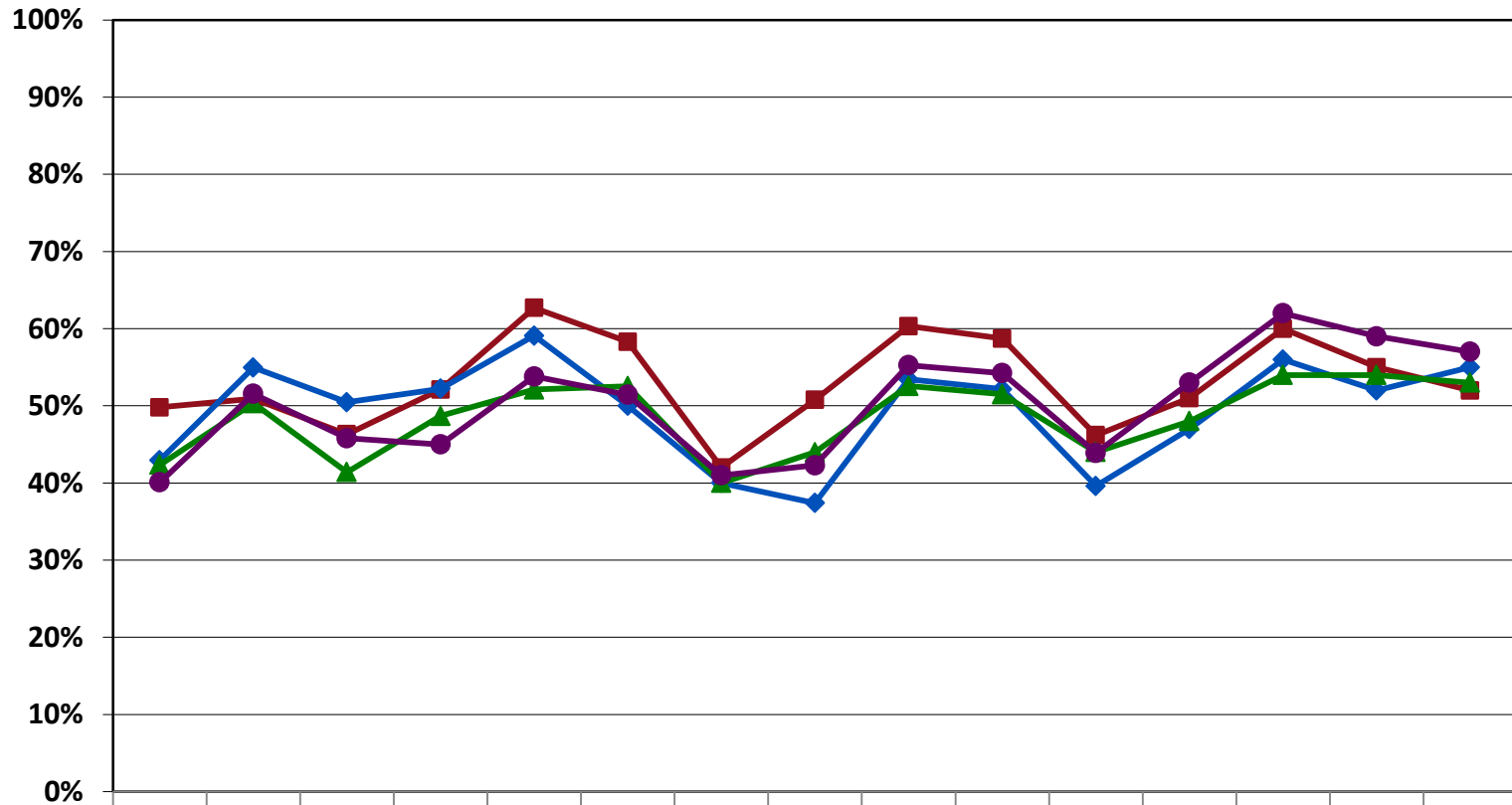
Expected Employment Change by industry

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



Organization Optimism by Region

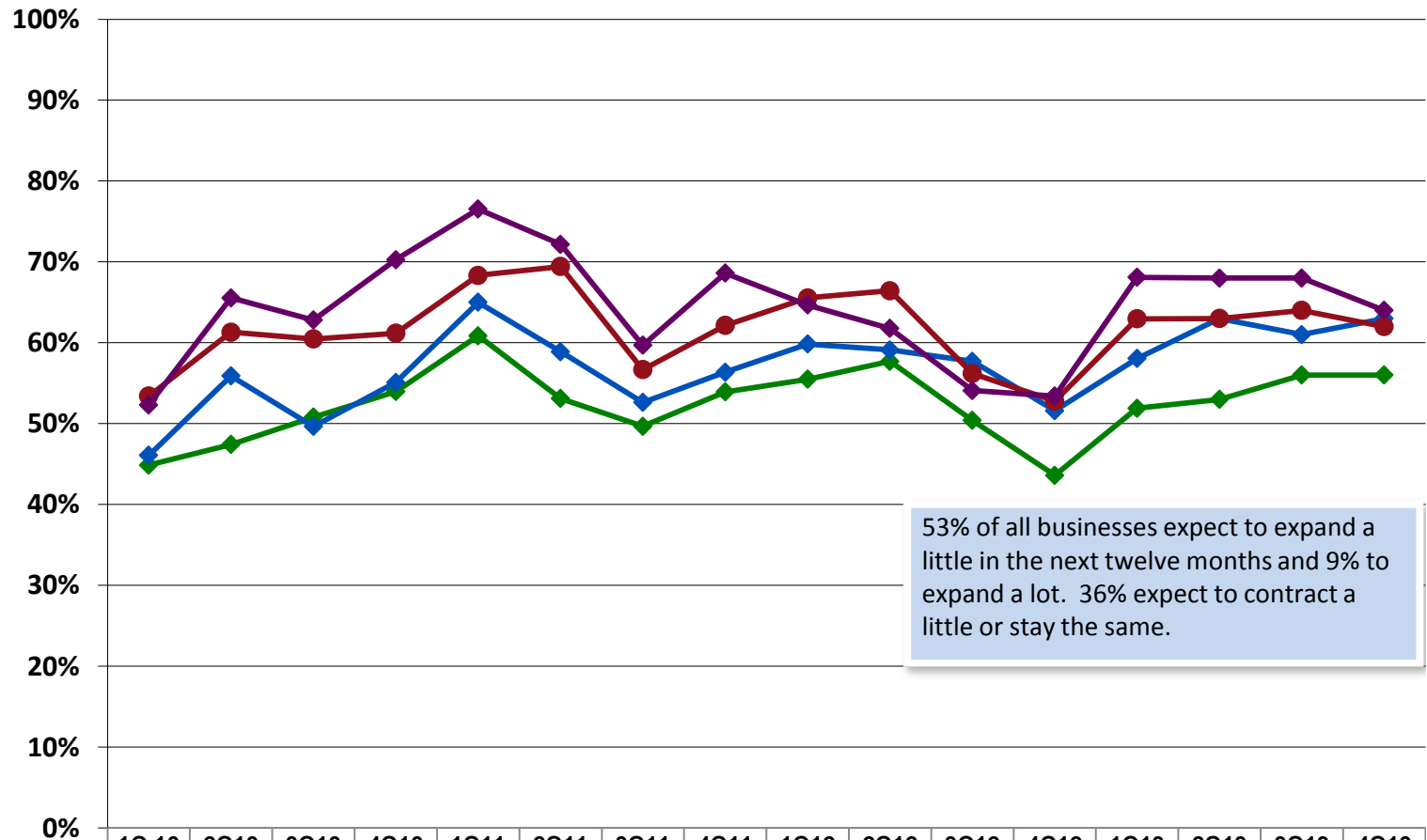
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months.



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

Expansion Plans by Business Size

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

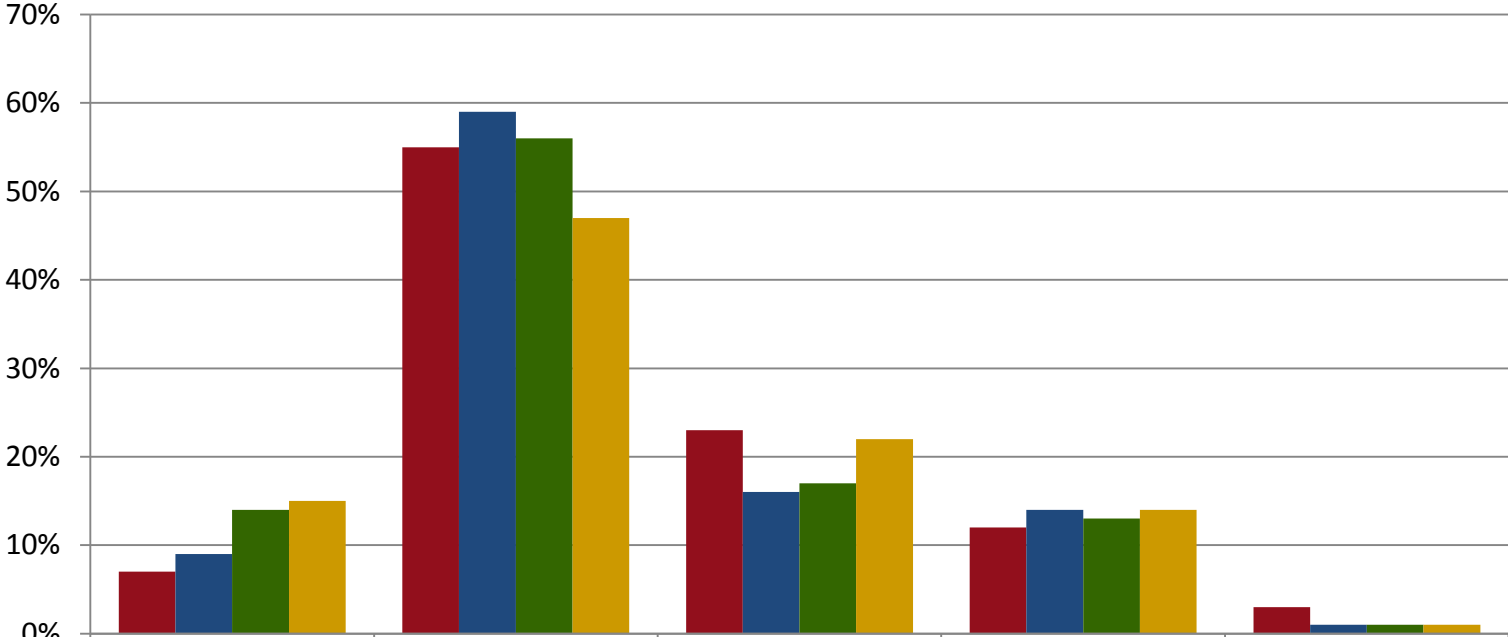


53% of all businesses expect to expand a little in the next twelve months and 9% to expand a lot. 36% expect to contract a little or stay the same.

	1Q 10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
◆ < \$10 million	45%	47%	51%	54%	61%	53%	50%	54%	55%	58%	50%	44%	52%	53%	56%	56%
◆ \$10 to <\$100 million	46%	56%	50%	55%	65%	59%	53%	56%	60%	59%	58%	52%	58%	63%	61%	63%
◆ \$100 million to <\$1 billion	53%	61%	60%	61%	68%	69%	57%	62%	66%	66%	56%	53%	63%	63%	64%	62%
◆ > \$1 billion	52%	66%	63%	70%	77%	72%	60%	69%	65%	62%	54%	53%	68%	68%	68%	64%

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)?



	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	7%	55%	23%	12%	3%
■ \$10 to <\$100 million	9%	59%	16%	14%	1%
■ \$100 million to <\$1 billion	14%	56%	17%	13%	1%
■ > \$1 billion	15%	47%	22%	14%	1%

Survey within a Survey

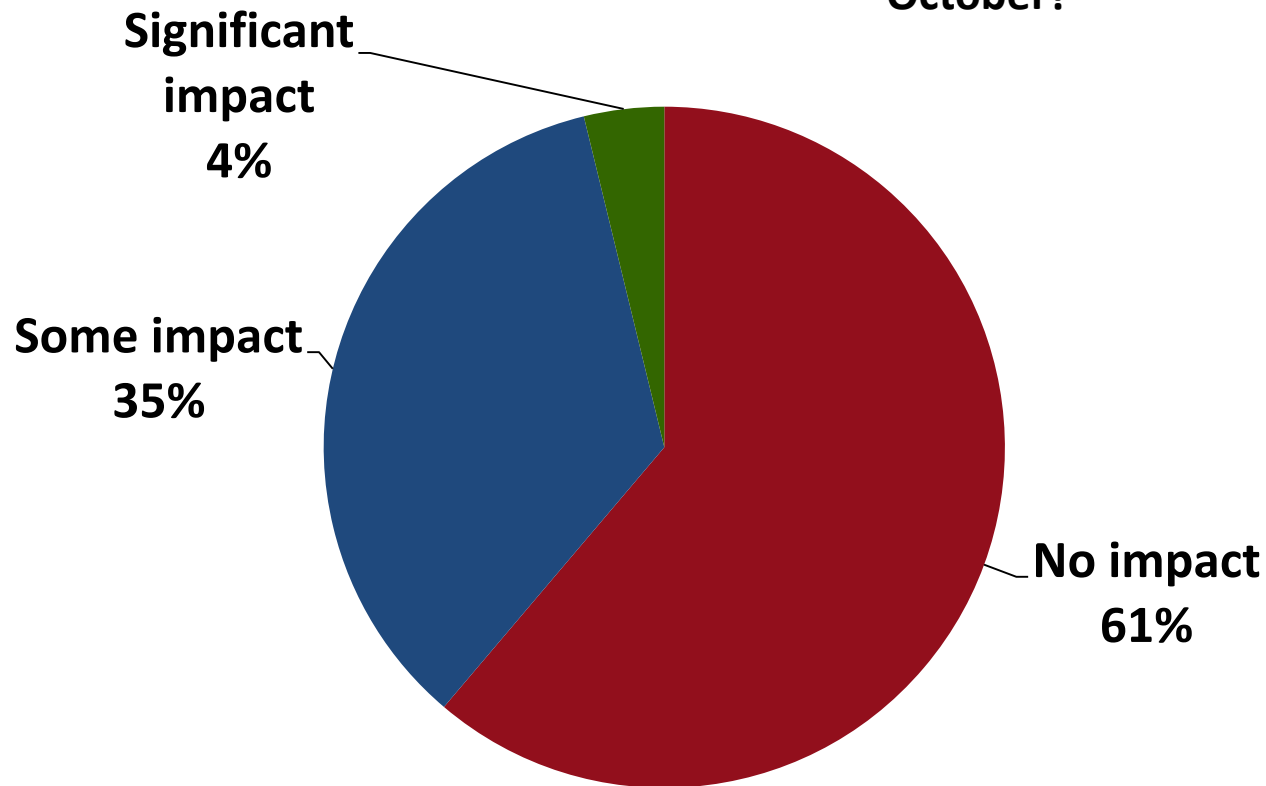
Each quarter this survey asks questions on a special topic in order to better understand the views and actions of AICPA members. This quarter the “survey within a survey” focused on the impact of, and reaction to the recent shutdown of the Federal government

Impact and response to Federal Shutdown

- **Majority (61%) of companies experienced no impact due to federal government shutdown in October**
 - 35% noticed some impact
 - 4% experienced significant impact
- **Only 4% of respondents are very concerned about reduced holiday spending as a result of the decline in consumer sentiment**
 - Another 31% are somewhat concerned
 - 65% are not concerned
- **85% have no confidence in Congress successfully negotiating a federal budget deal by December 13**
 - 14% are somewhat confident
 - 1% are very confident
- **Majority (80%) of companies not making changes in anticipation of another shutdown**
 - 12% delaying spending
 - 10% delaying hiring

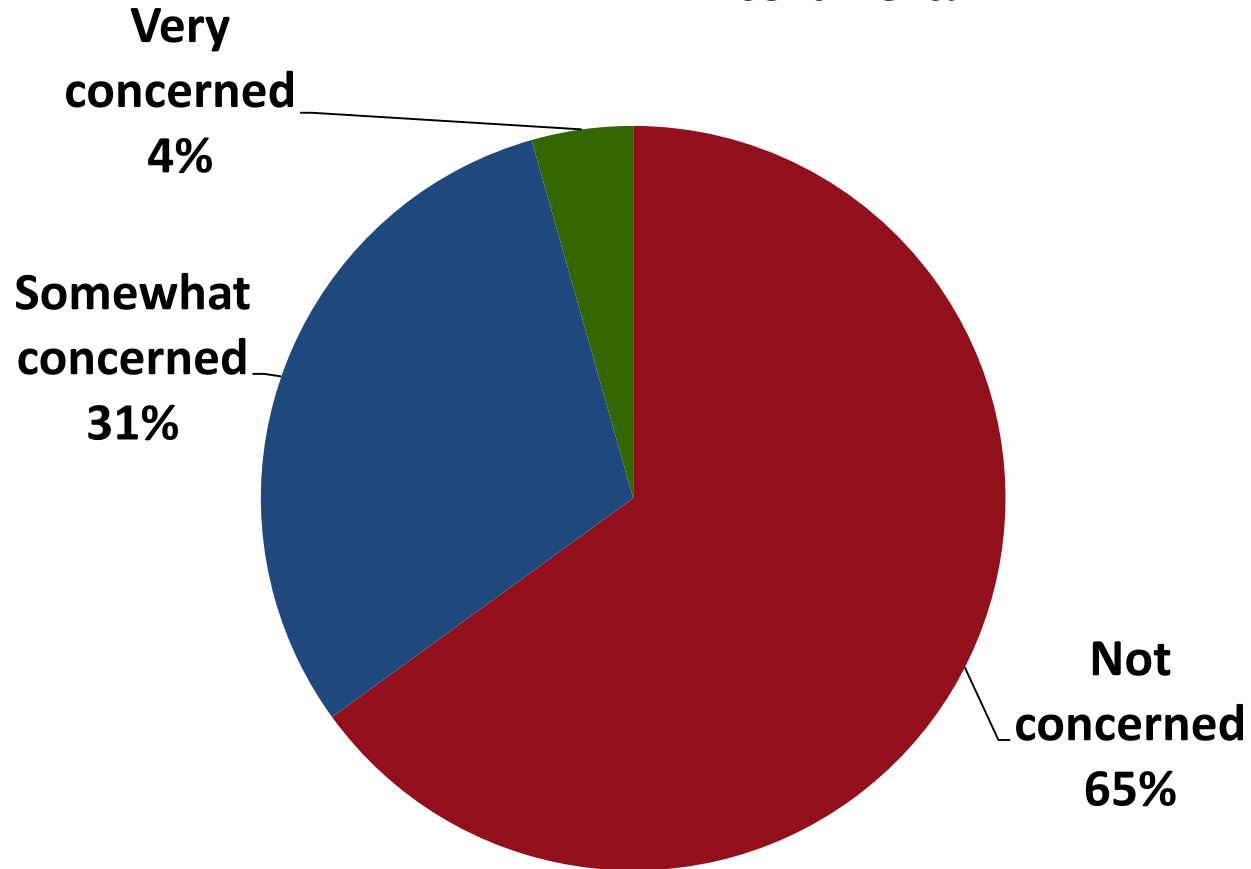
Impact of the Federal Government Shutdown

How significant was the impact on your business of the federal government shutdown in October?



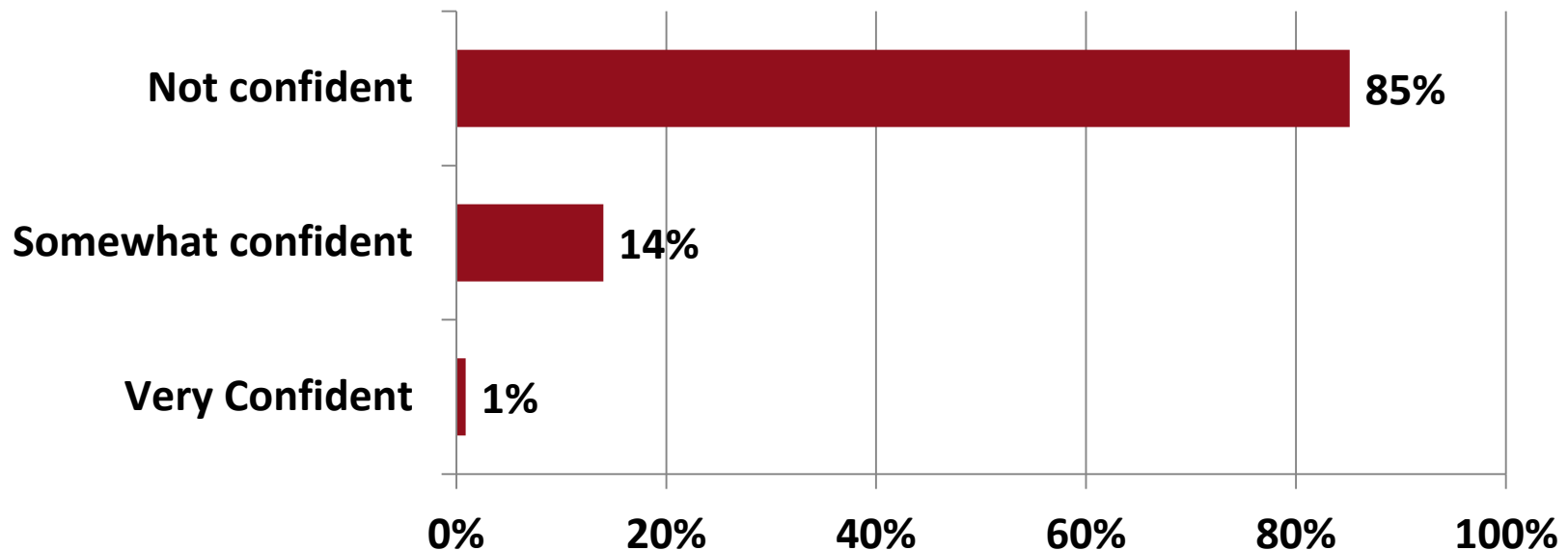
Impact of the decline in consumer sentiment

How concerned are you about the impact on your business from reduced holiday spending as a result of the decline in consumer sentiment?



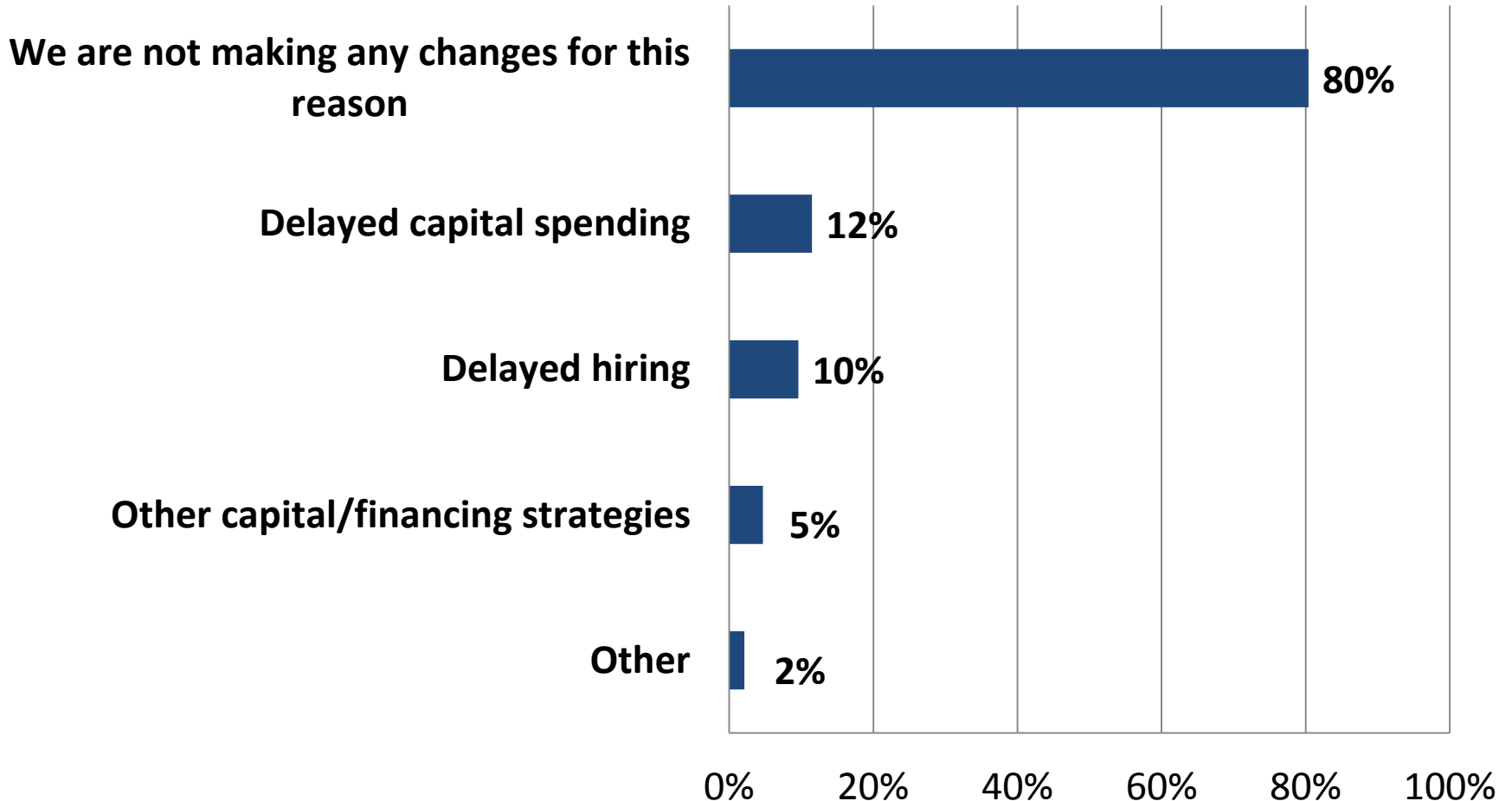
Congress Federal Budget Negotiation

How confident are you that Congress will be successful in negotiating a federal budget deal by the December 13 target deadline?



How Companies are Responding to the Anticipation of Another Government Shutdown

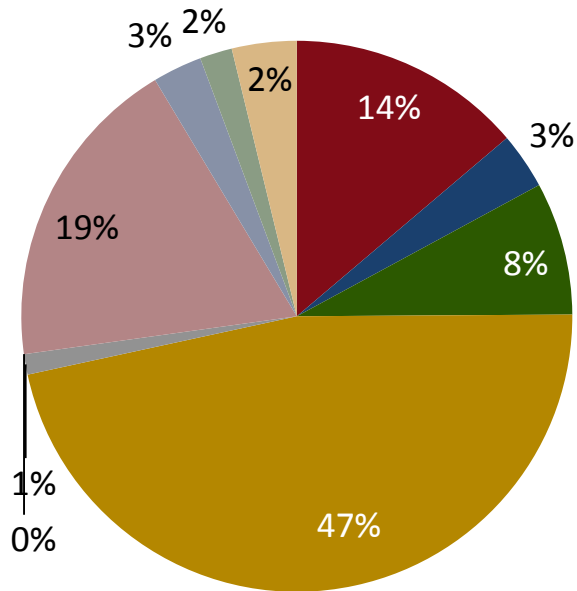
Which of the following is your business implementing in anticipation of another government shutdown? (Choose all that apply.)



Demographics

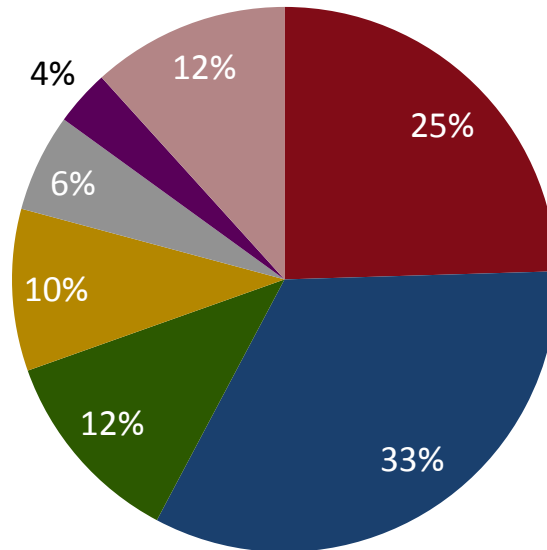
Demographics

Position



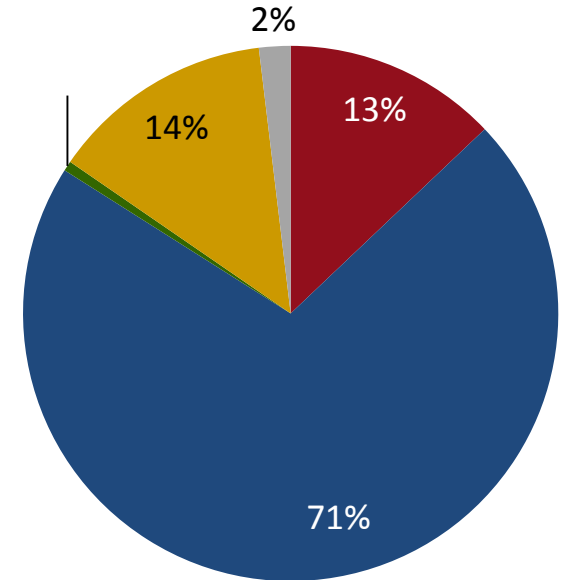
- CEO/President
- COO
- VP
- CFO
- CAO/CAE
- CIO
- Controller
- Director
- Accounting, Audit, Tax or Technology Manager
- Other

Size of Organization



- \$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

Type of Organization



- Publicly Listed Company
- Privately Owned Entity
- Not for Profit
- Government
- Other



AICPA
Business and Industry
Economic Outlook Survey
4Q 2013

For additional information contact:

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

David R. Lindquist
Manager, Market Research,
Office of Strategy Management
dlindquist@aicpa.org