AICPA Business & Industry U.S. Economic Outlook Survey 4Q 2014

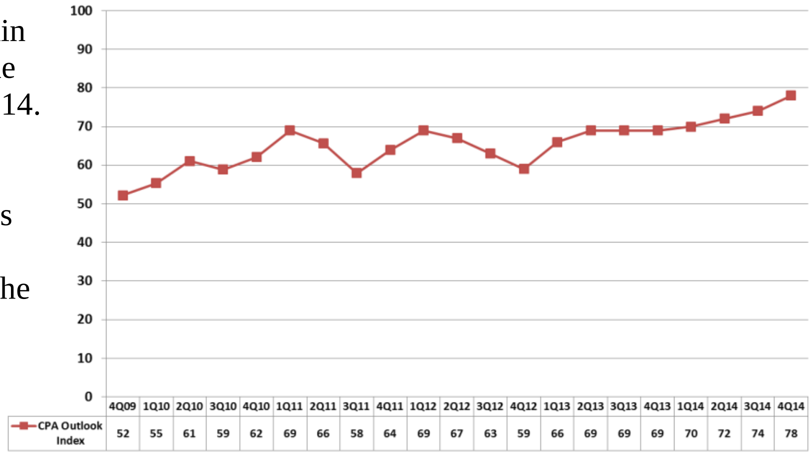
The CPA Outlook Index

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 - ↑ 03

The CPA Outlook Index (CPAOI) increased again in the third quarter from 74 to 77 with each of the components improving from the third quarter 2014.

Optimism about the US Economy made a significant jump, increasing an additonal 9 points for the quarter for a 22 point increase from Q4 2013. Additonal incremental increasses in both the organizational optimism and expansion plan components are supported by expectations for increased employment, spending and profitability.



Component	4Q13	1Q14	2Q14	3Q14	4Q14	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	56	65	67	69	78	↑ 09	↑ 22
Organization Optimism	73	74	75	78	80	↑ 02	↑ 07
Expansion Plans	74	74	76	79	81	↑ 02	↑ 07
Revenue	77	76	77	82	85	↑ 03	↑ 08
Profits	69	70	69	74	79	↑ 05	↑ 10
Employment	64	64	65	70	73	↑ 03	↑ 09
IT Spending	76	76	77	79	80	↑ 01	↑ 04
Other Capital Spending	69	67	70	74	75	↑ 01	↑ 06
Training & Development	67	68	70	73	75	↑ 02	↑ 08
Total CPAOI	69	70	72	75	78	↑ 03	↑ 09

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

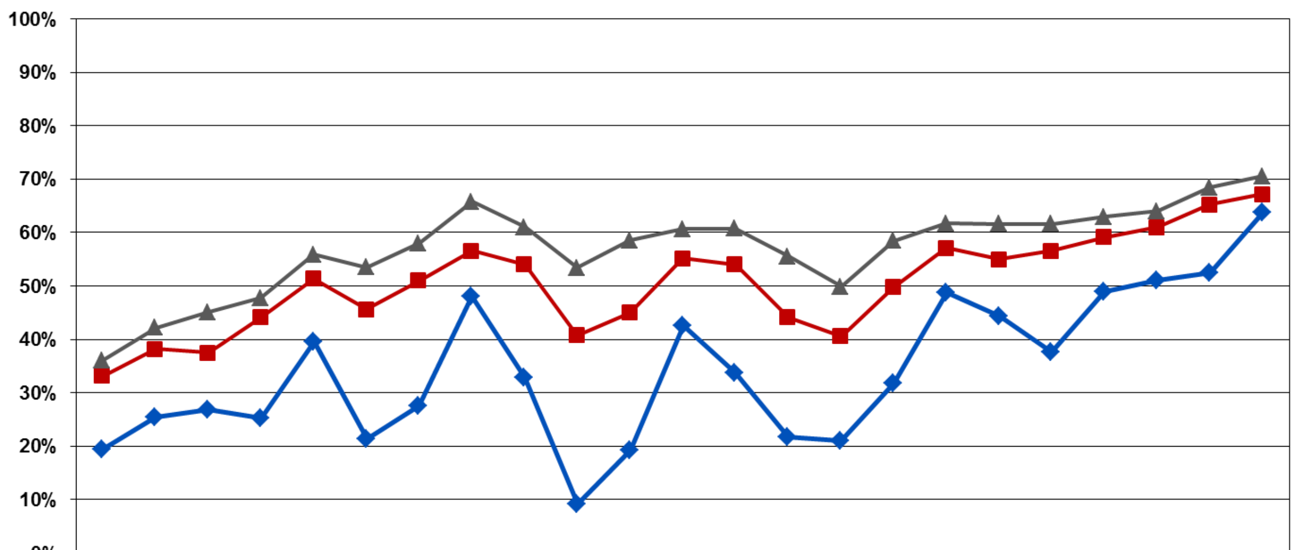
Optimism about US Economy increases significantly

The percentage of financial executives optimistic about the US Economy improved significantly in the fourth quarter of 2014 to 64% after passing the 50% mark for the first time since the recession in the second quarter and inching up to only 52% in the third quarter.

This improvement in the outlook for the economy has also supported the outlook for company prospects and plans for expansion, spending and hiring. The number of companies optimistic about their own prospects improved from 65% to 67% and those with expansion plans from 68% to 71% overall. Seventy-five percent of the largest companies (those with revenues in excess of $1 billion) have plans to expand their business

Those who were optimistic most frequently cited economic growth, the employment situation, and the recent elections as the reasons for their improved view. Lingering concerns about leadership/politics and continuing concerns about regulation were cited by those who were neutral or pessimistic.

Outlook for the US Economy, Organizations & Expansion



	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
US	20%	26%	27%	25%	40%	21%	28%	48%	33%	9%	19%	43%	34%	22%	21%	32%	49%	44%	38%	49%	51%	52%	64%
Organization	33%	38%	38%	44%	51%	46%	51%	57%	54%	41%	45%	55%	54%	44%	41%	50%	57%	55%	57%	59%	61%	65%	67%
Expansion	36%	42%	45%	48%	56%	54%	58%	66%	61%	53%	59%	61%	61%	56%	50%	58%	62%	62%	62%	63%	64%	68%	71%

Concerns about inflation eased from 38% to only 27% of CPA respondents being concerned about the prospects for inflation over the next six months. Concern about deflation increased from only 5% of respondents last quarter to 10% in the fourth quarter.

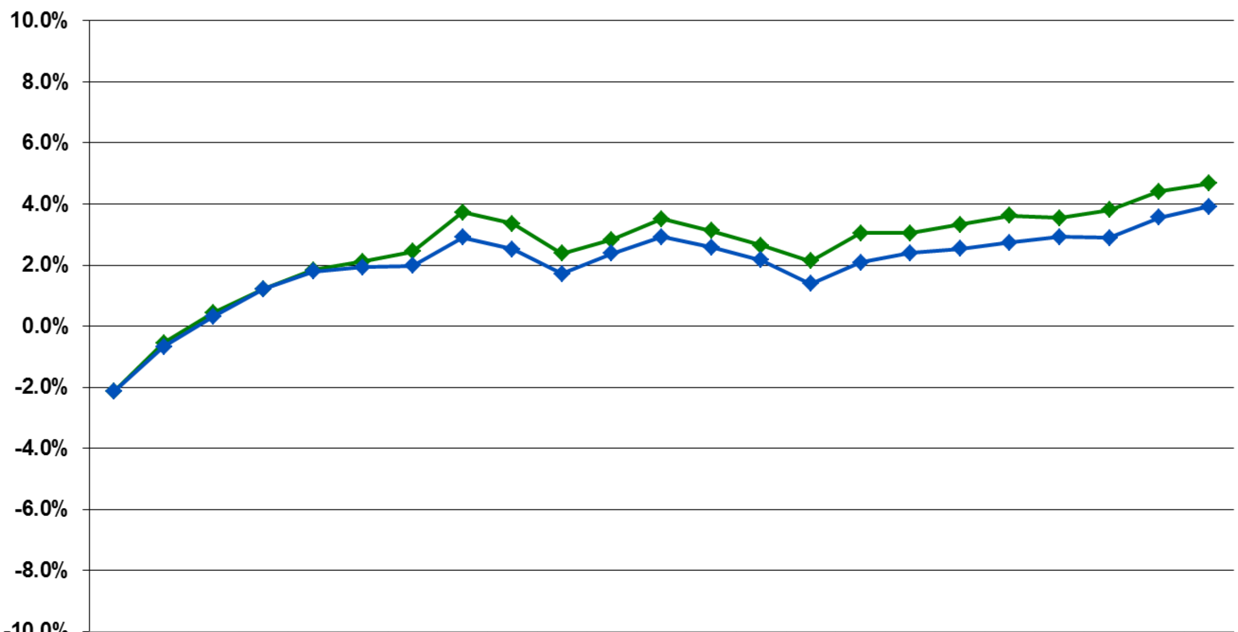
Labor costs continue to be the most pressing concern for 34% of respondents, up from 30% in the third quarter. Concern about interest rates eased from 25% in the third quarter to 21% in the fourth quarter.

Key Performance Indicators

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

Expectations for increased revenues improved from 4.4% in the third quarter to 4.7% in the fourth quarter. Expectations for higher profits rose from 3.6% to 3.9%, and expectations for increasing headcount improved from 1.8% to 2.1%.

Expectations for Revenue and Profits



	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
Revenue	-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%	4.4%	4.7%
Profit	-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%	3.6%	3.9%

While employee and benefit costs and availability of skilled personnel each moved up a slot to the second and third ranked challenges facing businesses, projected salary and benefit cost increases for the upcoming twelve months inched up only slightly from 2.4% to 2.5% and the expectation for increased healthcare costs eased slightly from a 6.6% estimate last quarter to 5.9% in Q4.

While projections for input prices continue to outpace expectations for prices charged, the easing of concern about inflation may be reflected in a slight reduction in “expected other input prices” for the coming twelve months from 2.3% to 2.1%. The ability to increase prices charged held constant at 1.7%.

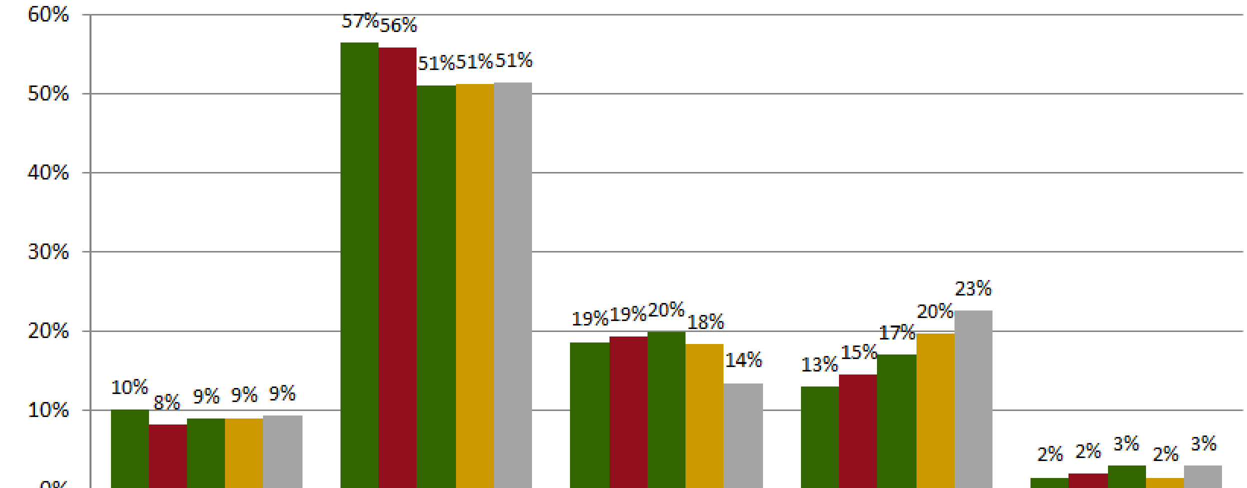
Spending plans continue to be robust. While optimism in the technology sector has fallen off, plans for IT spending continue to be the strongest category maintaining the post-recession high reached in Q3 for a projected increase of 3.3%. Spending plans for other capital and for training also improved to new highs of 3.2% and 2.2%, respectively. Plans for increased spending on marketing and R&D continued their improvement as well, inching up from 1.6% to 1.8% for marketing, and from 1.2% to 1.3% for R&D.

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 constant with recent quarters at 9%. The percentage of companies reluctant to hire decreased an additional four points this quarter to 14%, which is down from 20% as recently as the second quarter of 2014. Also, the number of companies with too few employees that are planning to hire increased to 23%. This is up three points from last quarter and ten points from the 13% we saw in the fourth 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
4Q13	10%	57%	19%	13%	2%
1Q14	8%	56%	19%	15%	2%
2Q14	9%	51%	20%	17%	3%
3Q14	9%	51%	18%	20%	2%
4Q14	9%	51%	14%	23%	3%

Industry, Region and Business Size Outlook

Construction shows significant increase, other sectors continue to be optimistic, but mixed

The construction sector topped the charts this quarter, in terms of optimism, increasing to 78% from 69% optimistic in the third quarter. This optimism is also supported by plans for an increase in headcount of 3.1% over the coming year, up from a 2.1% projected increase last quarter.

Healthcare – Other (pharmaceuticals, medical devices, etc.) also showed another jump this quarter, up another 4 points from 71% in the third quarter to 75% in the fourth quarter. Finance and Insurance also jumped in optimism in from only 61% in the third quarter to 71% of respondents in this sector expressing optimism about their prospects in the fourth quarter.

Manufacturing essentially maintained its high level of optimism, easing only a point from 72% in the third quarter to 71% in the fourth quarter. Hiring for manufacturing also improved slightly from a 2.0% expected rate to 2.2%.

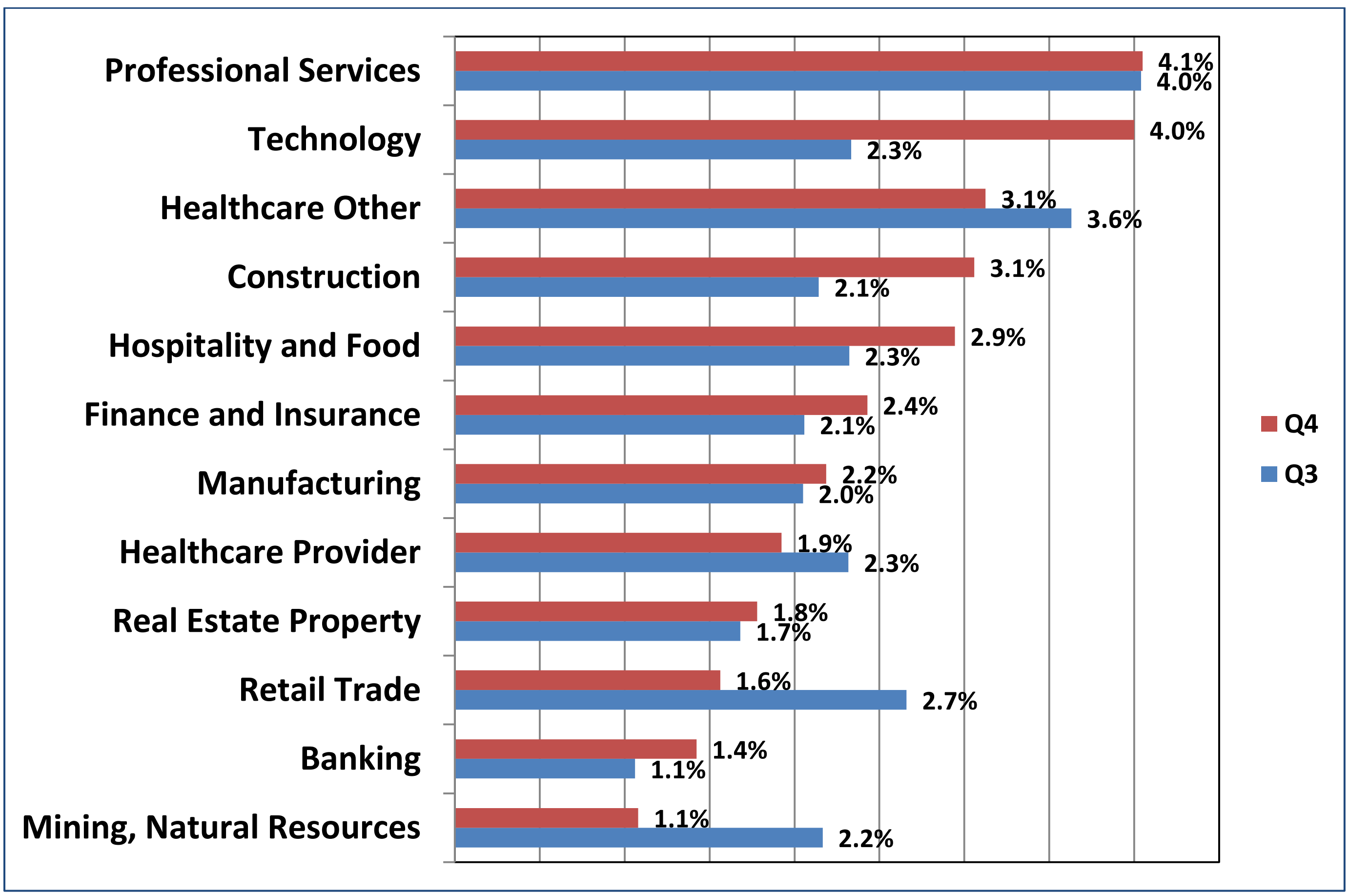
Professional, Scientific and Technical Services which topped the charts in the third quarter at 76% fell off this quarter. However, more than two-thirds (68%) of respondents continue to be optimistic and hiring continues to be strong, leading all sectors and improving this quarter from a 4.0% to a 4.1% projected hiring rate for the coming year. Similarly, Real Estate also fell off slightly from 70% being optimistic about their prospects in the third quarter to 64% in quarter four.

Technology optimism fell off sharply again this quarter with only 50% of respondents expressing optimism, down from a first quarter high of 80%. However, as noted above, spending projections for technology continue to be strong. Also, technology sector hiring rebounded from a 2.3% projection in the third quarter to a 4.0% rate now being projected for the coming twelve months.

Retail trade remained essentially unchanged this quarter, easing a point to 66%. However, hiring fell back to a projected increase of only 1.6%, after improving last quarter to a rate of 2.7%, possibly reflecting the timing of the holiday season.

Having long been the least optimistic sector, the most significant improvement in optimism this quarter is among Healthcare Providers. After finally reaching the 50% optimistic level in the third quarter, we now have nearly two-thirds (65%) of respondents in this sector indicating they are optimistic about their prospects.

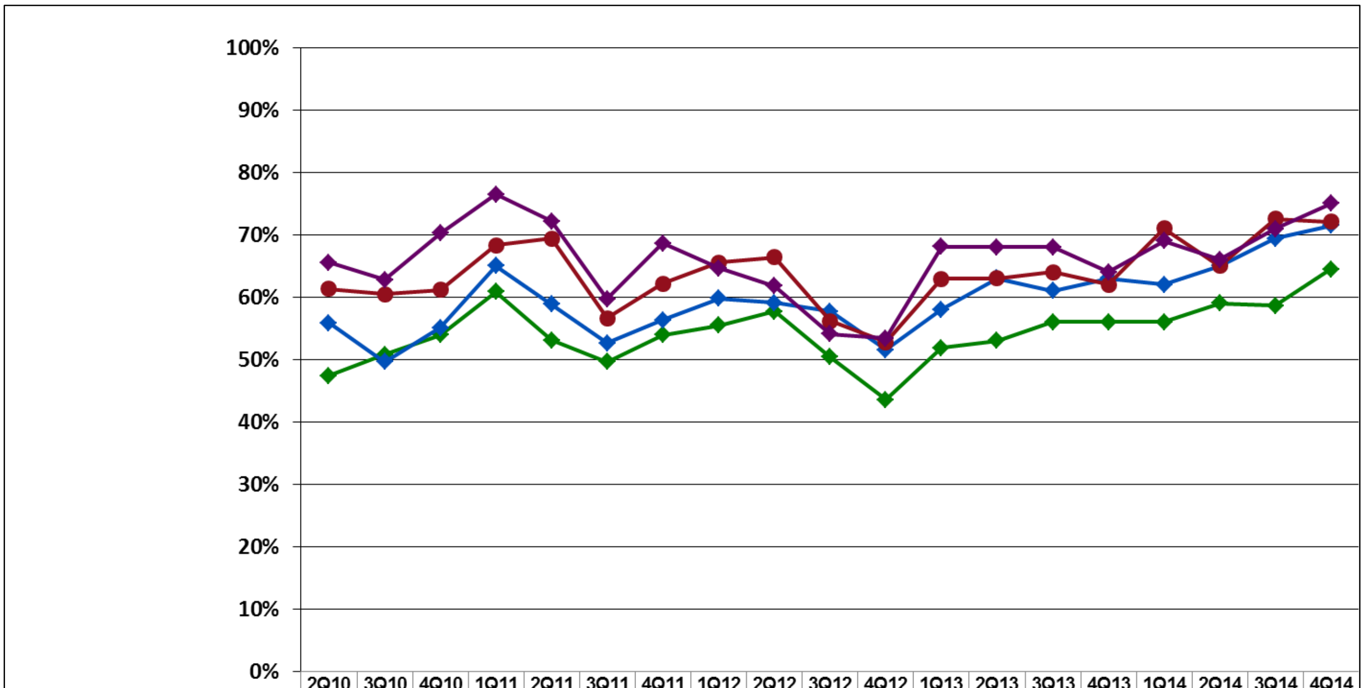
Expected Employment Change by Industry



Regionally, optimism in the Northeast decreased slightly from 68% to 66% and the Midwest, which improved from 60% to 66% in the third quarter made another jump to 76% 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, we now have 71% of companies overall having expansion plans for the upcoming year. The segment of the smallest companies, those with revenues less than $10 million per year, continues to lag a bit behind their larger counterparts. However, The number of smaller companies with plans to expand did jump this quarter to 65%, up from only 59% in both the second and third quarters. At the other end of the spectrum, 75% of companies with revenues in excess of $1 billion also expect to expand in 2015.

Expansion Plans by Business Size



	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14
< $10 million	47%	51%	54%	61%	53%	50%	54%	55%	58%	50%	44%	52%	53%	56%	56%	56%	59%	59%	65%
$10 to <$100 million	56%	50%	55%	65%	59%	53%	56%	60%	59%	58%	52%	58%	63%	61%	63%	62%	65%	69%	72%
$100 million to <$1 billion	61%	60%	61%	68%	69%	57%	62%	66%	66%	56%	53%	63%	63%	64%	62%	71%	65%	73%	72%
> $1 billion	66%	63%	70%	77%	72%	60%	69%	65%	62%	54%	53%	68%	68%	68%	64%	69%	66%	71%	75%

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 increased slightly in the second quarter from 47% to 49%. The percentage indicating they have more liquidity than they need and plan to deploy their excess improved again this quarter from 15% to 17%. Those with excess liquidity who remain reluctant to deploy their excess eased a point from 19% to 18%.

The percentage of companies planning to raise capital dropped a point to 10%. The number of companies that need capital but find credit availability and/or pricing to be a barrier declined another point from 8% to 7%. However, while fewer companies overall expect it to be more difficult to obtain necessary financing in the next quarter, 12% of companies with less than $10 million in revenues expect availability and/or pricing to be a barrier, while only 1% of companies with revenues greater than $1 billion face this challenge. This is down from 4% last quarter.

Top Challenges

Concern about domestic economic conditions eases; availability of skilled personnel, employee and benefits costs and domestic competition more pressing

Regulatory requirements/challenges continue to hold the top spot in terms of challenges facing organizations, while concern about domestic economic conditions dropped three spots from the #2 position to #5. Domestic political leadership also dropped another slot from #6 to #7.

Issues moving in the other direction include availability of skilled personnel, employee and benefits costs, and domestic competition which all moved up a notch to the #2, #3 and #4 slots.

Developing new products/services moved up two notches from #8 to #6. Changing customer preferences, followed by materials supplies and equipment costs now hold the #8 and #9 slots respectively, followed by staff turnover which re-appeared in the #10 slot. Perhaps a bit surprising, global economic conditions fell out of the top 10 ranking this quarter.

Top Challenges Facing Organizations

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

Survey Background

The survey was conducted of AICPA Business & Industry members between November 5 and November 24, 2014. CFOs comprised 53% of the respondents, 23% were Controllers, 10% 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, 15% from publicly-listed companies, 12% from not-for-profits, 1% from government and 1% from other. Eleven percent came from organizations with annual revenues of $1 billion or more, 25% from organizations with $100 million to under $1 billion in annual revenues, 48% from organizations with $10 million to $100 million and 22% from organizations with under $10 million in revenues (numbers may add to more than 100% due to rounding).