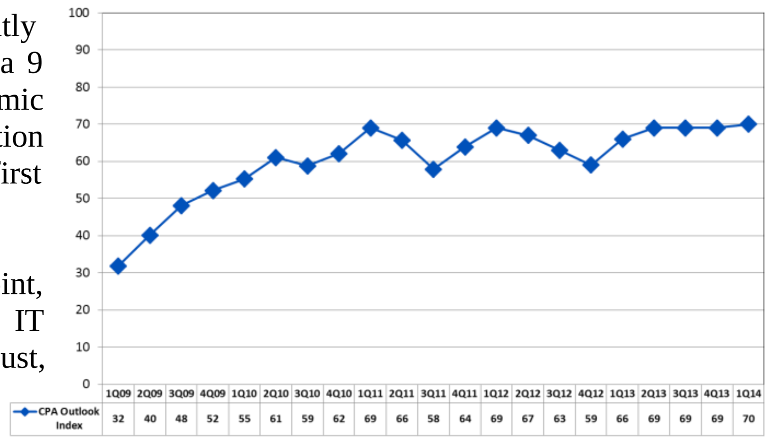
AICPA Business & Industry U.S. Economic Outlook Survey 1Q 2014

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 - ↑ 01

The CPA Outlook Index (CPAOI) inched up slightly to 70 for the first quarter of 2014, primarily on a 9 point increase in the component for US economic optimism. The index component for organization optimism also increased by a point to 74 in the first quarter, up 7 points from Q1 2013.



While the reveneue index has ticked down a point, profit expectations have ticked up a point. IT spending expectations continue to be the most robust, and employment increases the least robust individual index component.

Component	1Q13	2Q13	3Q13	4Q13	1Q14	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	50	66	62	56	65	↑ 09	↑ 15
Organization Optimism	67	72	71	73	74	↑ 01	↑ 07
Expansion Plans	70	72	74	74	74	→ 00	↑ 04
Revenue	72	74	76	77	76	↓ 01	↑ 04
Profits	65	67	68	69	70	↑ 01	↑ 05
Employment	61	62	64	64	64	→ 00	↑ 03
IT Spending	74	75	75	76	76	→ 00	↑ 02
Other Capital Spending	66	67	68	69	67	↑ 02	↑ 01
Training & Development	65	66	65	67	68	↑ 01	↑ 03
Total CPAOI	66	69	69	69	70	↑ 01	↑ 04

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

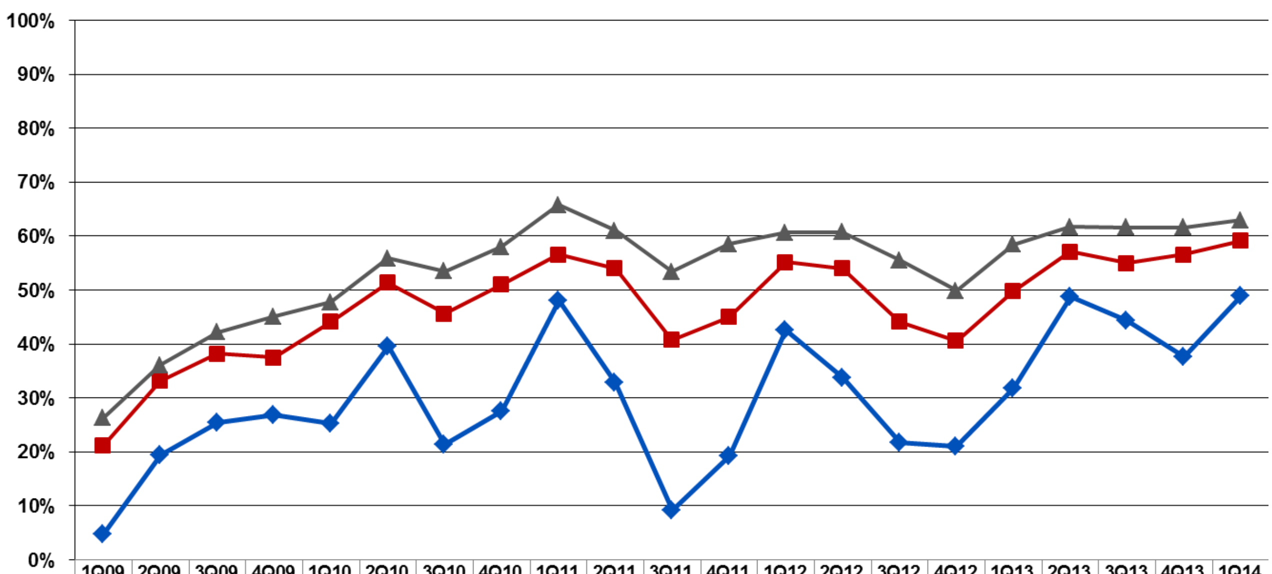
Improved view of US Economy bolsters outlook and plans for organizations

After falling off to only 38% in the fourth quarter of 2013, the number of respondents who are optimistic about the economy recovered in the first quarter of 2014 to the post-recession high of 49% we saw in the second quarter of 2013.

This improvement in the outlook for the economy has also bolstered the outlook for company prospects and their plans for expansion, spending and hiring. The number of companies that are now optimistic about their own prospects increased to a post-recession high of 59% and those who expect their businesses to expand also ticked up from 62% in the fourth quarter to 63%.

Those who are optimistic most frequently cited the employment situation, consumer spending and improvement in the political/leadership situation as well as earnings and profits as the rationale for their optimism. Ongoing concern about the political/leadership situation and healthcare reform/Affordable Care Act were the reasons cited most frequently by those who expressed pessimism about the economy.

Outlook for the US Economy, Organizations & Expansion



	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
US	5%	20%	26%	27%	25%	40%	21%	28%	48%	33%	9%	19%	43%	34%	22%	21%	32%	49%	44%	38%	49%
Organization	21%	33%	38%	38%	44%	51%	46%	51%	57%	54%	41%	45%	55%	54%	44%	41%	50%	57%	55%	57%	59%
Expansion	26%	36%	42%	45%	48%	56%	54%	58%	66%	61%	53%	59%	61%	61%	56%	50%	58%	62%	62%	62%	63%

Concerns about inflation continue to be relatively low – 29% of CPA respondents are concerned about the prospects for inflation over the next six months, slightly down from 31% in 4Q 2013; only 8% expressed concerned about deflation which is only a single point higher than the 7% seen in the second, third and fourth quarters of 2013.

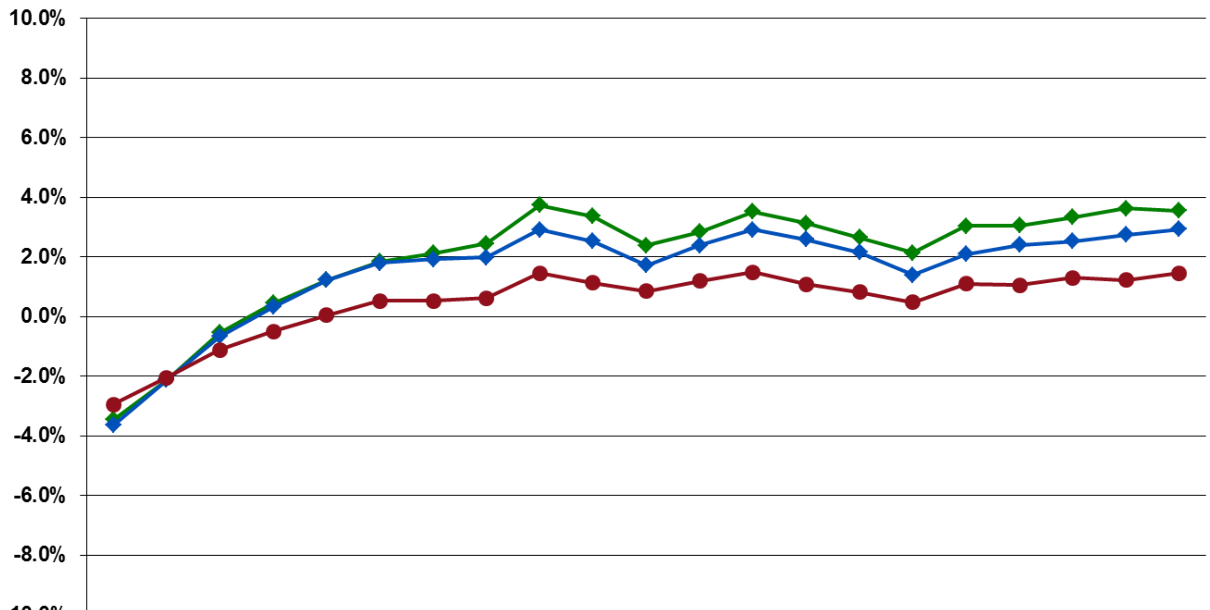
Labor costs, which surpassed raw materials costs as the factor representing the most significant risk to business in the second quarter 2013, continue to be the greatest concern and increased again in the first quarter to 34%, up from only 23% of respondents in 4Q 2012 and prior quarters. Concern about raw material costs did increase by four percentage points in the first quarter to 27%, flip-flopping with energy costs which declined by four percentage points and are now the top concern of only 8% of respondents. Interest rates continue to be the top concern of a quarter of the respondents.

Key Performance Indicators

Expectations for revenues remain constant, but profit and headcount plans show improvement

While expectations for increased revenues remained at the 3.6% level we saw in 4Q 2013, profit expectations improved to a 2.9% rate and plans for growth in employment increased to 1.5%, reaching levels for all three metrics that we have seen only in similar rebounds of 1Q 2011 and 1Q 2012.

Expectations for Revenue, Profits and Staffing



	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Revenue	-3.5%	-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%
Profit	-3.7%	-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%
Employees	-3.0%	-2.1%	-1.1%	-0.5%	0.1%	0.5%	0.5%	0.6%	1.5%	1.1%	0.9%	1.2%	1.5%	1.1%	0.8%	0.5%	1.1%	1.0%	1.3%	1.2%	1.5%

Respondents’ expectations for prices continue essentially unchanged. Prices charged are expected to increase by 1.3% over the coming twelve months, However, prices paid are expected to increase by 1.8% and expectations for salary increases and benefits are expected to increase at a rate of 2.2%, obviously putting pressure on expected profits. Expectations for healthcare cost increases continue to be higher than other costs but eased slightly in the fourth quarter 2013 to 6.6% after jumping to 6.7% in the 2Q and 6.8% in 3Q, and eased slightly in the first quarter of 2014 to 6.2%.

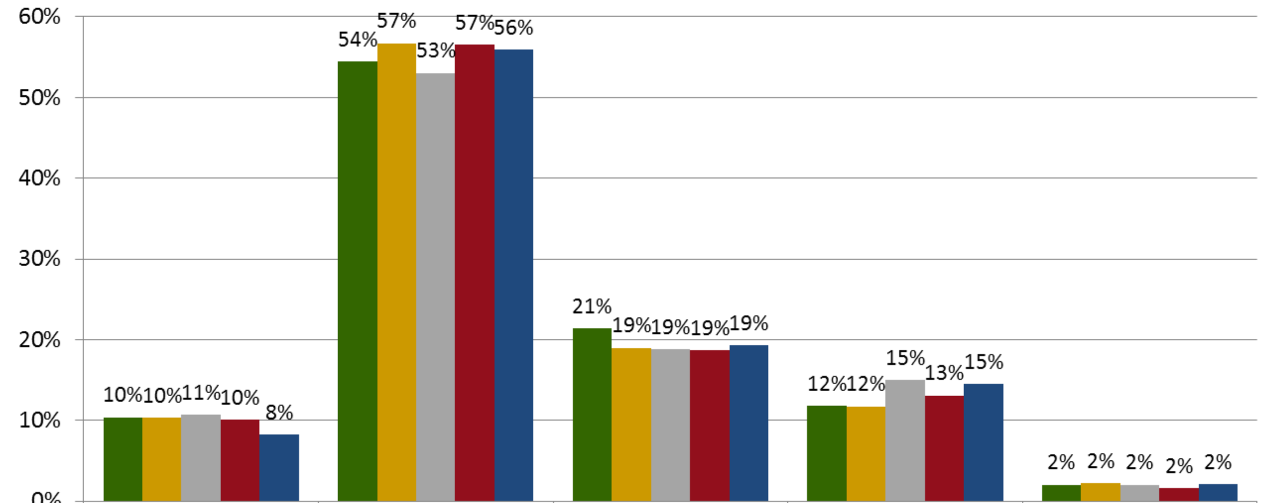
Spending plans are showing new post-recession highs in all key categories. Increased spending for IT continues to be the strongest category of spending, improving in the first quarter to 3.2%. Other capital spending also improved to a new post-recession high of 2.3%, and consistent with the improved expectations for increased hiring, the projected rate of increased spending for employee training and development has also reached a new high of 1.7%.

Hiring Plans

Percent of companies planning to hire recovers

Slightly more than half of all companies (56%) continue to say they have the right number of employees. The number of companies that say they have too many declined again from 10% to only 8% in the first quarter. The number of companies that say they have too few employees but are hesitating to hire remained below 20% for the fourth straight quarter. The number of companies with too few employees who plan to hire recovered to the post-recession high of 15% in 1Q after falling off slightly in the fourth quarter to 13%.

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
1Q13	10%	54%	21%	12%	2%
2Q13	10%	57%	19%	12%	2%
3Q13	11%	53%	19%	15%	2%
4Q13	10%	57%	19%	13%	2%
1Q14	8%	56%	19%	15%	2%

Industry, Region and Business Size Outlook

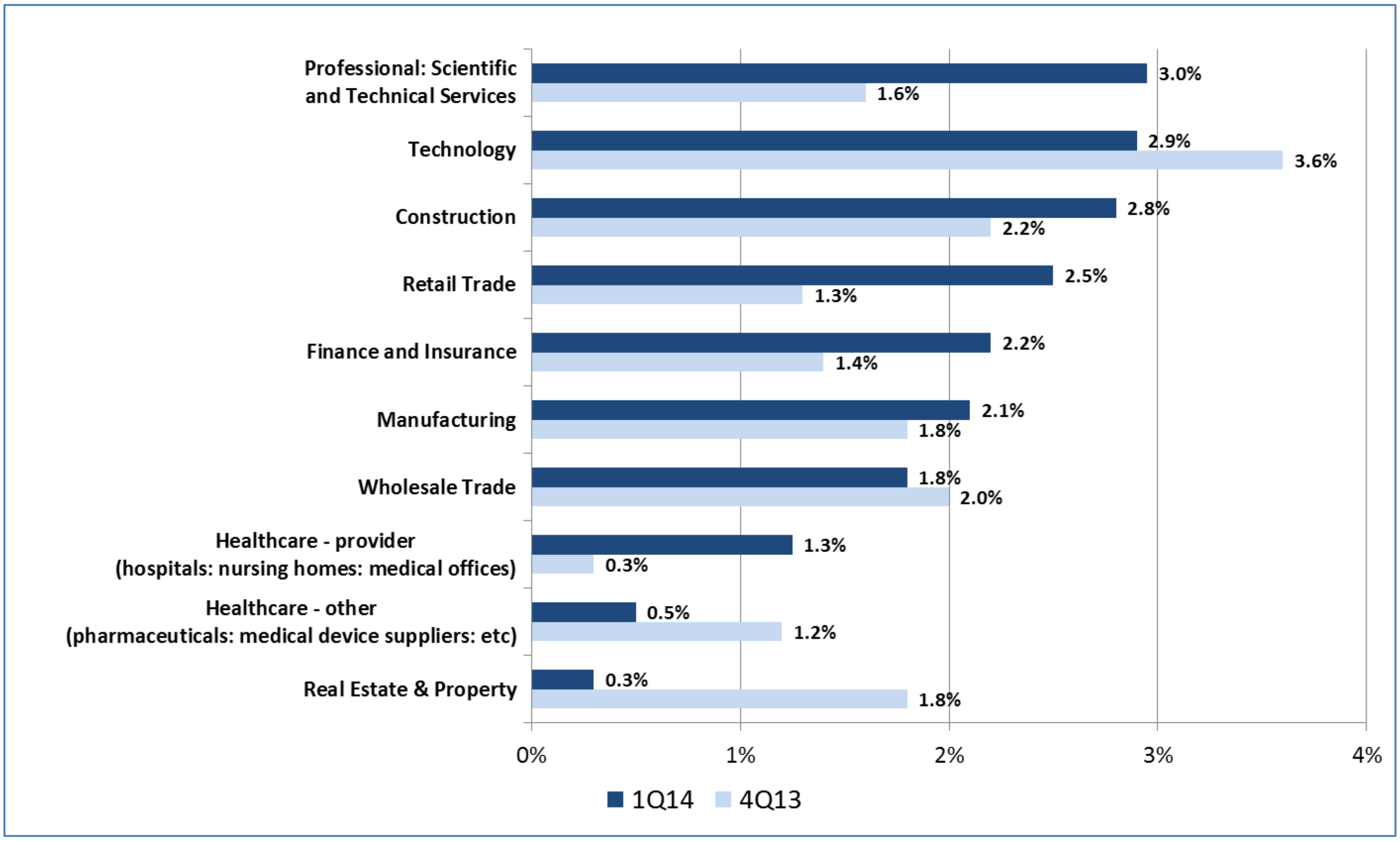
Optimism improves in most sectors, supported by plans for increased hiring

Consistent with the increase in plans for spending on IT noted above, the technology sector retained its place as the most optimistic sector with 80% of its respondents indicating they are now optimistic about their company's prospects after falling off sharply to only 56% of respondents who were optimistic in 3Q 2013. Construction also showed improved optimism increasing from 67% to 73%, while manufacturing remained unchanged at 66% of its respondents continuing to be optimistic about the prospects for their business. Finance and insurance rebounded to 71% in the first quarter after falling to 56% in 4Q 2013 and real estate also rebounded from 55% to 64%. Professional services also improved significantly from 53% in 4Q 2013 to 62% in the first quarter.

While retail trade improved from 52% to 59% optimistic, the wholesale trade sector continues to lag with only 48% of their respondents being optimistic, falling from 56% in 4Q 2013. Healthcare-other (43%) and healthcare providers (34%) continue to be the least optimistic.

While hiring plans for technology continue to be strong at a 2.9% projected rate of increase over the next 12 months, this is a slight decline after jumping significantly to 3.6% in 4Q 2013. The professional services sector now has the strongest plans for hiring, increasing from only 1.6% in 4Q 2013 to 3.0% this quarter. Retail trade and finance and insurance are also showing significant increases in hiring plans which support their improved optimism. Retail hiring is now expected to increase at a rate of 2.5%, up from 1.3% in 4Q 2013. Finance and insurance improved from 1.4% to 2.2%. Both construction and manufacturing are showing improved hiring forecasts as well. Construction is now projecting a 2.8% hiring rate, up from 2.2%, and manufacturing increased from 1.8% to 2.1%.

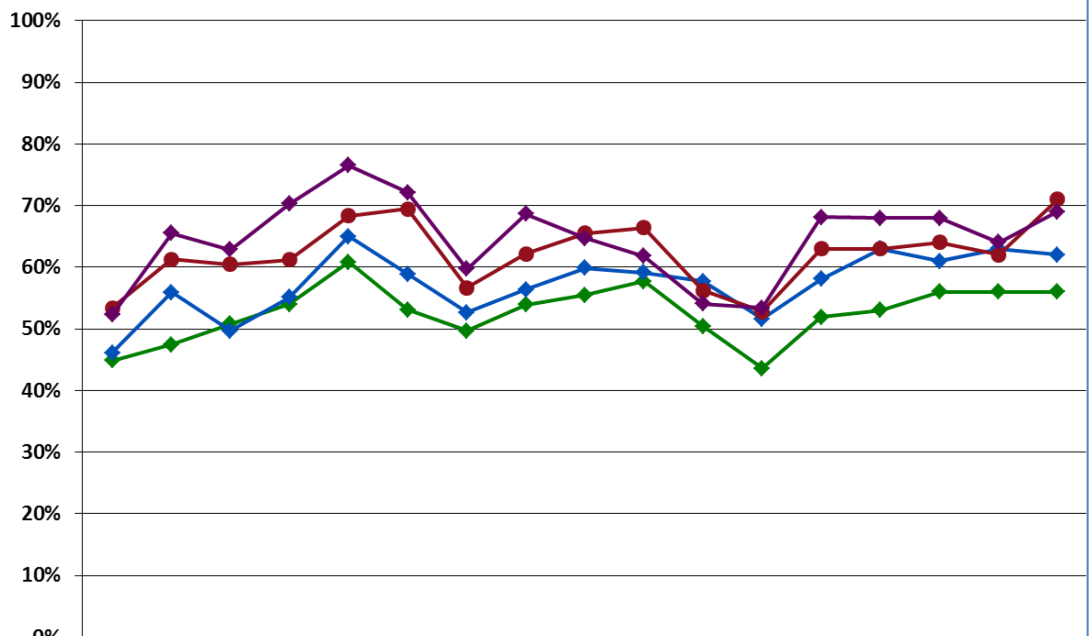
Expected Employment Change by Industry



In terms of regional perspective, optimism increased to 70% from 57% in the West and to 63% from 55% in the Northeast, likely a reflection of the expected improvements in the technology and finance sectors which have significant concentrations in those regions. The Midwest increased slightly from 52% to 55% optimistic, and South remained unchanged 53% optimistic.

After easing off somewhat during the second half of 2012, plans for expansion by the largest of companies seem to have recovered in the first quarter of 2014. Seventy-one percent of companies with revenues in the $100 million to $1 billion range are now planning to expand their business, followed by 69% of companies with revenues in excess of $1 billion. Both categories have recovered significantly from falling off to only 53% in the fourth quarter of 2012. The number of companies in the $10 to $100 million revenue range with plans to expand fell a point from 63% in 4Q to 62%, and the under $10 million sector held constant at 56%.

Expansion Plans by Business Size



	1Q 10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
< $10 million	45%	47%	51%	54%	61%	53%	50%	54%	55%	58%	50%	44%	52%	53%	56%	56%	56%
$10 to <$100 million	46%	56%	50%	55%	65%	59%	53%	56%	60%	59%	58%	52%	58%	63%	61%	63%	62%
$100 million to <$1 billion	53%	61%	60%	61%	68%	69%	57%	62%	66%	66%	56%	53%	63%	63%	64%	62%	71%
> $1 billion	52%	66%	63%	70%	77%	72%	60%	69%	65%	62%	54%	53%	68%	68%	68%	64%	69%

Liquidity

Overall liquidity remains strong for most organizations;

The majority of the respondents' organizations continue to have at least as much cash as the need with only 20% needing to raise capital; unchanged from 4Q. On an overall basis, 33% percent have more than they need and 47% have about the right amount. The number of companies expecting to deploy excess liquidity increased this quarter to 15% after declining to 12% in Q4. Conversely, the percentage of companies that have excess capital, but are reluctant to deploy declined to a post-recession low of 18% after ticking up to 23% in the fourth quarter 2013.

Overall the majority of respondents (54%) continue to believe that obtaining credit would not be more or less difficult than in previous quarter. The percentage of companies who expect it to be more difficult returned to 12% after falling off to 9% last quarter, but the number expecting it to be less difficult also increased to 10% after falling to 8% last quarter. Fortunately, only 10% of small businesses anticipate that obtaining credit will be more difficult in the next quarter, down from 19% last quarter. Consistent with last quarter, only 5% of very large businesses felt that way.

Top Challenges

Challenges facing business reflect improved economy but increased regulation

Regulatory requirements/challenges, employee and benefits costs, followed by domestic economic conditions continued in the top three ranking of challenges facing organizations in the first quarter of 2014. Availability of skilled personnel advanced to the fourth ranking slot, while domestic political leadership dropped from the fourth ranking slot to sixth. Developing new products/services/markets advanced a slot, while stagnant/declining markets dropped a notch, returning to the 8th position.

Domestic competition, changing customer preferences and materials/supplies/equipment costs continued in the respective fifth, ninth and tenth ranking slots.

Top Challenges Facing Organizations

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

Survey within the Survey

A majority of companies will give bonuses or incentives to employees this year

A significant percentage of companies (84%) have historically given bonuses or incentives to employees. Of those companies, 74% continued to give bonuses or incentives during the economic downturn; only 23% did not continue.

In terms of plans for this year, 69% of companies will give bonuses or incentives (primarily cash) to employees, 19% will not; the balance of 12% do not yet know.

Survey Background

The survey was conducted of AICPA Business & Industry members between February 12, and February 26, 2014 and had 867 qualified respondents. CFOs comprised 49% of the respondents, 21% were Controllers, 12% were CEOs or Presidents, 7% were VPs, 2% were COOs; the remainder were Directors or other executives. Seventy-two percent of respondents came from privately owned entities, 12% from publicly listed companies, 14% from not-for-profits, 1% from government and 1% from other. Nine percent came from organizations with annual revenues of $1 billion or more, 23% from organizations with $100 million to under $1 billion in annual revenues, 47% 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).