Management Accounting

Association of International Certified Professional Accountants®

The unified voice of AICPA and CIMA.

Economic Outlook Survey

1st 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 another 2 points to 81 in the first quarter of 2018. This is the highest total CPAOI since the creation of the index for this survey.

The index component for optimism about the U.S. Economy improved to 86, up from 84 in the fourth quarter.

Organization optimism and expansion plans, along with revenue and profit indicators all reflected this continued optimism about the economy. Employment and anticipated capital spending plans showed the most significant improvements this quarter.

CPA Outlook Index (CPAOI)

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

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

aicpa.org/

CPA Outlook Index

Component	1Q17	2Q17	3Q17	4Q17	1Q18	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	79	77	77	84	86	↑02	↑07
Organization Optimism	77	76	78	80	81	↑01	↑04
Expansion Plans	77	76	76	80	81	↑01	↑06
Revenue	81	79	83	85	86	↑01	↑05
Profits	74	72	77	78	80	↑02	↑06
Employment	71	72	72	71	74	↑03	↑03
IT Spending	78	80	81	82	83	↑01	↑05
Other Capital Spending	71	72	77	76	79	↑03	↑08
Training & Development	73	73	74	76	76	→00	↑03
Total CPAOI	76	75	77	79	81	↑02	↑05

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.

Outlook for the U.S. Economy and Organizations

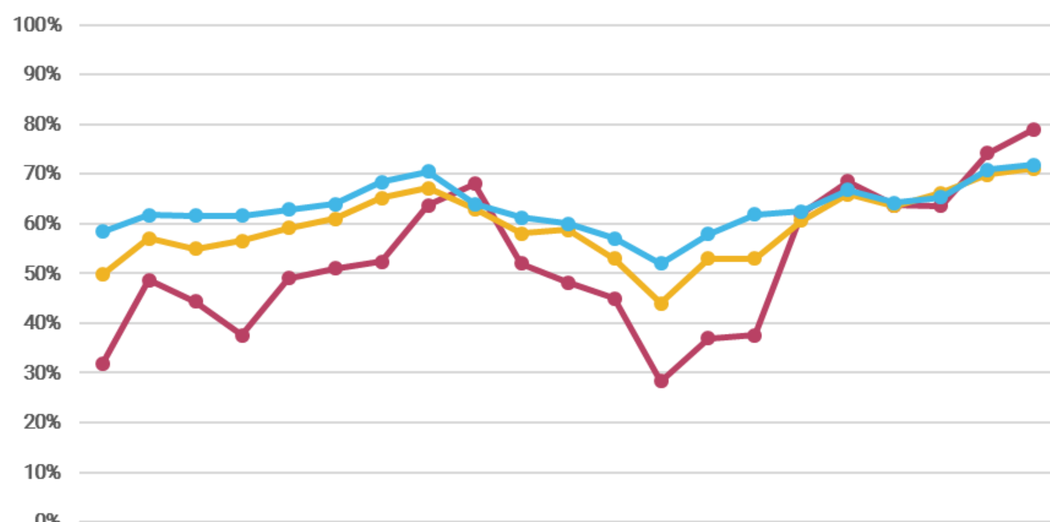
Optimism for the U.S. Economy increases another 5% in first quarter

The number of CPA executives who are optimistic about the U.S. economy increased another 5 points to 79%, after jumping 10 points from 64% in the third quarter to 74% in the fourth quarter, 2017. Optimists site the general strength of many economic indicators along with corporate tax cuts and deregulation.

On the downside, in addition to ongoing concern about the political environment, there were a number of comments about inflation, interest rates and market unease.

Organizational optimism increased also increased another point from its post-recession high of 70% in the fourth quarter to 71% in the first quarter. The percentage of companies with expansion plans also gained another point from 71% to 72% of respondents now having plans for expanding their business.

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



	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
U.S.	32%	49%	44%	38%	49%	51%	52%	64%	68%	52%	48%	45%	28%	37%	38%	62%	69%	64%	64%	74%	79%
Organization	50%	57%	55%	57%	59%	61%	65%	67%	63%	58%	59%	53%	44%	53%	53%	61%	66%	64%	66%	70%	71%
Expansion	58%	62%	62%	62%	63%	64%	68%	71%	64%	61%	60%	57%	52%	58%	62%	62%	67%	64%	65%	71%	72%

As noted, concern about inflation took a significant jump. In the first quarter with 49% of respondents now expressing concern about inflation, up from only 27% in the fourth quarter. While early in 2016 we saw some level of concern about deflation, now only 3% of respondents have that concern.

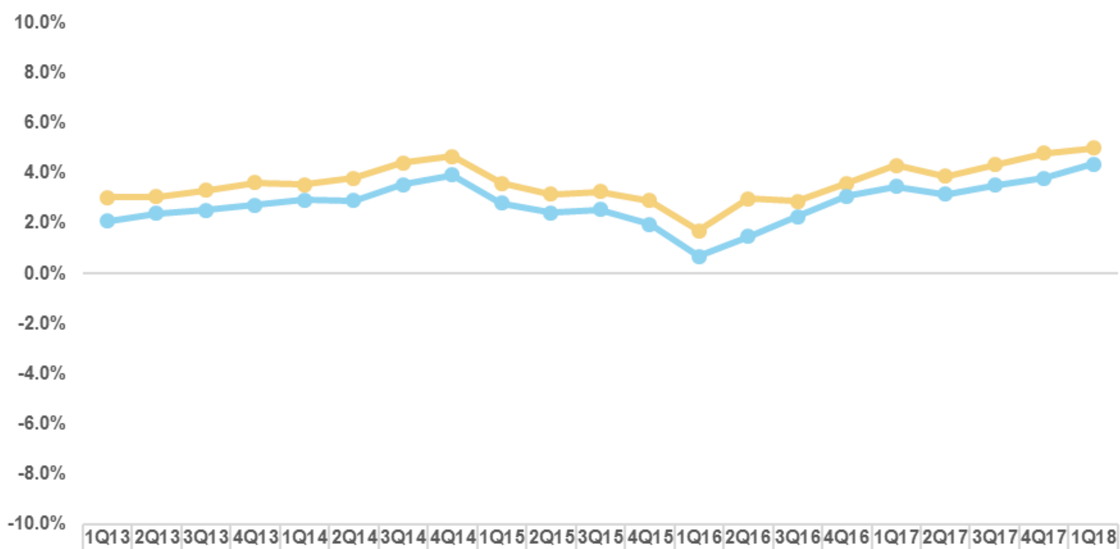
Labor costs continue to be the highest-ranking inflation concern. However, in the first quarter, energy costs ticked up 2 points from 6% to 8%, and interest rate concerns ticked up from 21% to 22%, while labor cost concerns eased another three points from 41% to now only 38% of respondents with labor being the most pressing concern. Other identified concerns included freight, healthcare, insurance and foreign exchange.

Key Performance Indicators

Revenue and profit projections both show new highs

Expectations for increased revenues and profits for the coming 12 months showed additional increases in the first quarter. Revenues are expected to grow at a 5.0% rate, and profits at a 4.4% rate.

Expectations for Revenue and Profits



	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
Revenue	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%	4.8%	5.0%
Profit	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%	3.8%	4.4%

Other capital displaced IT as the strongest category of planned spending over the upcoming twelve months, increasing to an expected rate of 3.9%, up from 3.1% in the fourth quarter. IT spending is still expected to be strong, improving a tenth from 3.6% to 3.7%. Spending for training and development also improved another two points from 2.0% to 2.2%, continuing its upward trend. Plans for spending on marketing improved a tenth from 2.0% to 2.1%, and plans for R&D spending maintained the post-recession high of 2.0% reached in the second half of 2017.

Salary and benefits costs inched up another two tenths this quarter, from 2.5% to a 2.7% expected rate of increase. Expected healthcare cost increases which continue to be higher than other costs, eased back another three tenths to 5.6%.

The expected increase in “other input prices” gained another two tenths to 2.7%, a post-recession high that reflects the increased concern about inflation. On the other side of the equation, the expected ability to increase “prices charged” remained constant at 2.1%.

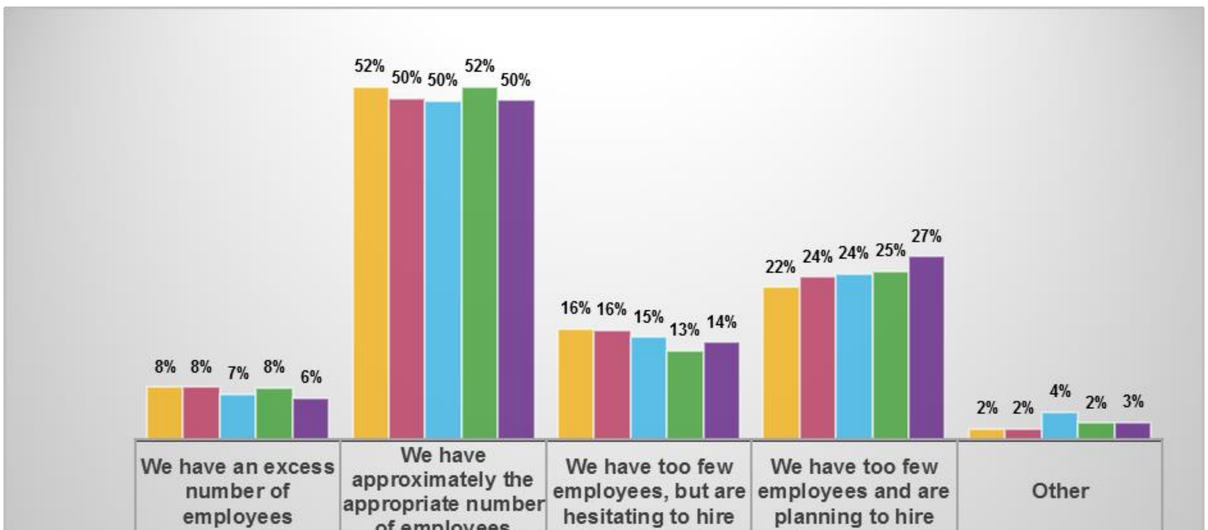
Hiring Plans

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

In this quarter 50% of all companies say they have the appropriate number of employees. Those saying they have an excess number of employees eased from 8% to only 6% overall. While 15% of companies with revenues in excess of $1 billion have too many employees, 39% of large companies have too few employees.

This quarter, 41% now indicate that they currently have too few employees, up from 38% last quarter. Of these, the percentage of companies that are planning to hire improved two points to 27%. The percentage of those who are reluctant to hire increased a point to 14%. While higher than last quarter, this continues to show an easing from levels seen in 2016 and early 2017.

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
1Q17	8%	52%	16%	22%	2%
2Q17	8%	50%	16%	24%	2%
3Q17	7%	50%	15%	24%	4%
4Q17	8%	52%	13%	25%	2%
1Q18	6%	50%	14%	27%	3%

Employment plans by business size show a bit of a mixed picture:

- For employers with > $1 billion in revenues, only 45% have the right number of employees and 15% have an excess number, leaving 39% with too few employees. Of those, only 15% remain hesitant, while 24% are planning to hire.
- Of those in the $100 million to $1 billion category, 45% now say they have too few employees; 31% are hiring with only 14% being hesitant.
- In the $10 - $100 million range, of the total of 46% with too few employees, 32% have plans to hire; only 14% are hesitant.
- Employers with revenues < $10 million remain mixed; 61% have the right number and only 4% have an excess of employees; while 33% have too few employees, 18% are planning to hire; 15% are hesitant.

Industry, Region and Business Size Outlook

Optimism and hiring strong across most sectors

Retail trade optimism continued its recovery, improving to 66% after falling off to only 53% optimistic in the third quarter of 2017. Hiring for retail also improved to an expected rate of increase of 2.5%, up from a rate of 1.9% in the fourth quarter.

Manufacturing also continued is rebound to 77% optimistic, after falling off to only 63% being optimistic in the third quarter of 2017. Manufacturing hiring also improved from a rate of 2.6% to 3.0% expected for 2018.

Expected Employment Change by Industry

Technology optimism also continued its climb with now 80% of tech respondents being optimistic about their prospects, although hiring expectations softened a bit to now only a 1.4% rate.

Construction optimism eased a bit from 80% in the fourth quarter to 77% in the first quarter. Construction hiring plans followed suit, easing from 3.0% to now a 2.8% expected rate.

Professional services optimism continued its rebounded to 78% now optimistic. Finance and insurance also improved from 73% to now 79% optimistic.

Healthcare provider optimism gave back some gains, declining to 61% optimistic, down from 65% in the fourth quarter. Expected hiring by healthcare providers returned to previous levels at an expected rate of 1.8%, down from a 2.9% high seen in the fourth quarter.

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

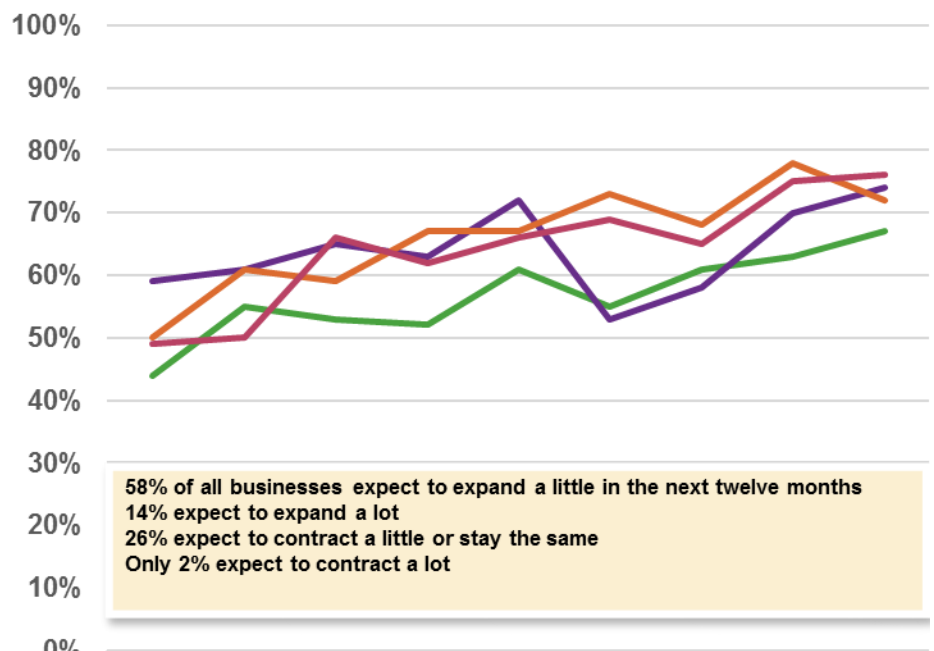
Regional optimism trends a bit mixed; expansion plans for small business jumps

In terms of regional perspective, the Midwest declined from its high level of 74% optimistic in the fourth quarter to 71% in the first. Optimism in the West picked up two points, improving to 75% optimistic in the first quarter. In the South, optimism gained three points to now 72% of respondents being optimistic. The Northeast continues to be the least optimistic region, but also improved to 65% now being optimistic about the prospects for their company.

Expansion plans:

- The number of companies with revenues < $10 million having expansion plans improved another four points to another post-recession high of 67% with plans to expand
- Expansion plans for the $10-$100 million range of companies also improved another four points to 74%
- The $100 million to <$1 billion range of companies dropped back to 72% with expansion plans after jumping to 78% in the fourth quarter
- The percentage of companies with revenues > $1 billion improved another point with now 76% of this category of largest companies having plans to expand

Expansion Plans by Business Size



	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18
< $10 million	44%	55%	53%	52%	61%	55%	61%	63%	67%
$10 to <$100 million	59%	61%	65%	63%	72%	53%	58%	70%	74%
$100 million to <$1 billion	50%	61%	59%	67%	67%	73%	68%	78%	72%
> $1 billion	49%	50%	66%	62%	66%	69%	65%	75%	76%

Top Challenges

Availability of personnel continues to be most challenging along with domestic competition

- Availability of skilled personnel and Domestic competition remained the #1 and #2 challenges
- Employee and benefit costs moved up to the third ranking
- Regulatory requirements/changes dropped to the fourth ranking
- Developing new products/services and Domestic economic conditions remained in the fifth and sixth slot
- Staff turnover moved from ninth to seventh
- Changing customer preferences dropped to eighth
- Financing (access/cost of capital) moved to ninth – last seen in the top ten 3Q16
- Materials/supplies/equipment costs remained in the tenth slot

Top Challenges Facing Organizations

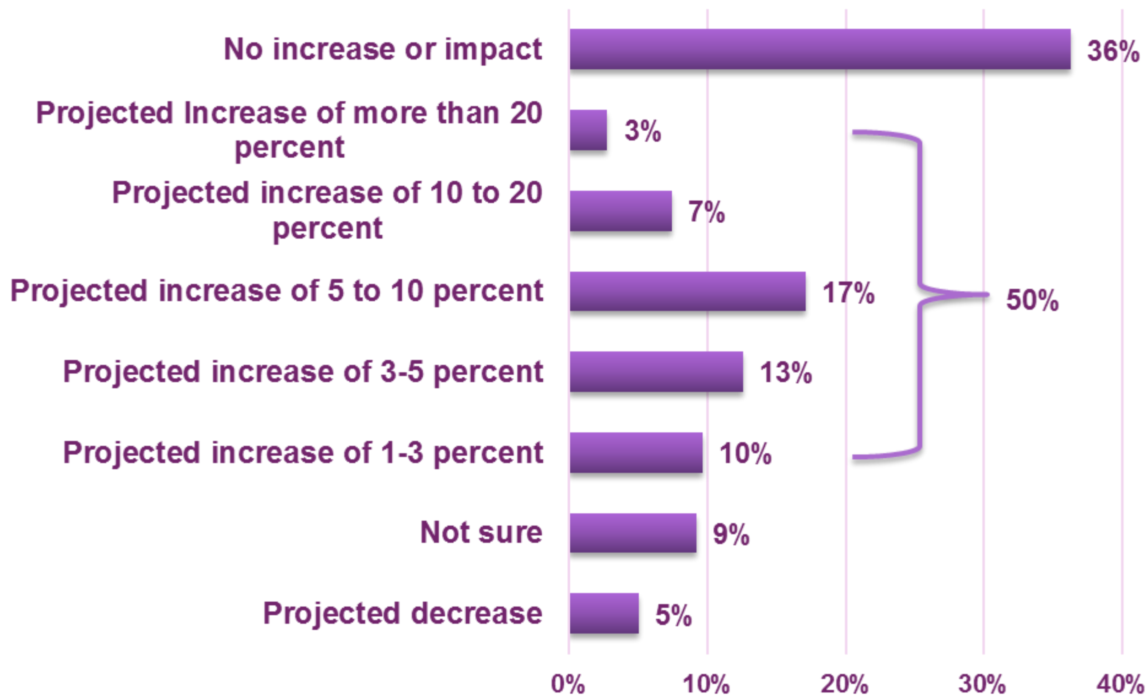
	1Q17	2Q17	3Q17	4Q17	1Q18
1	Employee and benefits costs	Employee and benefits costs	Availability of skilled personnel	Availability of skilled personnel	Availability of skilled personnel
2	Regulatory requirements/changes	Availability of skilled personnel	Regulatory requirements/changes	Domestic competition	Domestic competition
3	Availability of skilled personnel	Regulatory requirements/changes	Domestic competition	Regulatory requirements/changes	Employee and benefits costs
4	Domestic economic conditions	Domestic economic conditions	Domestic economic conditions	Employee and benefits costs	Regulatory requirements/changes
5	Domestic competition	Domestic competition	Employee and benefits costs	Developing new products/services/markets	Developing new products/services/markets
6	Changing customer preferences	Staff Turnover	Developing new products/services/markets	Domestic economic conditions	Domestic economic conditions
7	Domestic political leadership	Developing new products/services/markets	Stagnant/declining markets	Changing customer preferences	Staff Turnover
8	Developing new products/services/markets	Materials/supplies/ equipment costs	Changing customer preferences	Domestic political leadership	Changing customer preferences
9	Staff Turnover	Domestic political leadership	Domestic political leadership	Staff Turnover	Financing (access/cost of capital)
10	Materials/supplies/ equipment costs	Changing customer preferences	Staff Turnover	Materials/supplies/ equipment costs	Materials/supplies/ equipment costs

Survey within the Survey

Tax savings expected to benefit earnings; impact of interest rates a concern

When asked about the expected impact of changes to corporate taxes, half of the respondents, excluding those from our not-for-profit sector, expect to see an increase in their earnings.

Federal Tax Reform – Impact on Earnings



Of those companies expecting savings from federal tax reform:

- 29 percent of companies said savings would go to increased capital spending
- 17 percent said they would use savings to pay down debt
- 13 percent said they would hire either more part-time or full-time workers
- 10 percent said they will issue a dividend to investors and 3% plan to buy back stock
- 5% expect to acquire or merge with another company.

Many companies also plan to pass expected tax savings on to employees. Twenty-six percent indicated they have already raised pay, offered bonuses or other benefits to their workers. An additional third (33%) said they have additional plans to pass savings on to workers in the coming year.

On the downside of our economic situation, 75% of our executives expressed concern about the impact of potential interest rate increases on their companies.

Survey Background

The survey was conducted of AICPA Business & Industry members between February 6-21, 2018, and had 818 qualified respondents.

CFOs comprised 41% of the respondents, 18% were Controllers, 11% were CEOs or Presidents, 10% were VP/SVPs, 9% were Directors, 2% were COOs, and 2% were CAOs; the remainder were other executives.

Sixty five percent of respondents came from privately owned entities, 15% from publicly listed companies, and 17% from not-for-profits.

Fourteen percent came from organizations with annual revenues of $1 billion or more, 24% from organizations with $100 million to under $1 billion in annual revenues, 43% from organizations with $10 million to $100 million and 19% from organizations with under $10 million in revenues.

aicpa.org/