



AICPA

Business and Industry

Economic Outlook Survey

Detailed Survey Results — 2Q 2014

Survey Background

- **Conducted between May 13 and 29, 2014**
- **Quarterly Survey**
- **CPA decision makers (primarily CFOs, CEOs and Controllers)**
- **AICPA members in Business & Industry only**
- **1,810 qualified responses**

Survey Highlights

■ CPA Outlook Index improves in all components

- Overall index increased to 72
- US economy optimism index component increased 2 points to 67, as more than half (51%) of respondents express being optimistic about the economy for the first time since the recession
- The organization optimism index improved from 74 to 75 and the expansion index from 74 to 76 in Q2

■ Improvement continues in key indicators

- Revenue expectations improved a point from 76 to 77; however, profit expectations eased a point from 70 to 69
- Employment improves slightly but continues to be softest component at 65
- Spending plans continue to be robust

■ Optimism, expansion and hiring improves in many sectors

- Construction industry takes over the top spot in hiring plans
- More smaller companies with revenues < \$10 million expecting to expand (59%) than any quarter since 1Q 2010
- Healthcare providers and other healthcare companies also show improvements in their outlook

CPA Outlook Index (CPAOI)

CPA Outlook Index

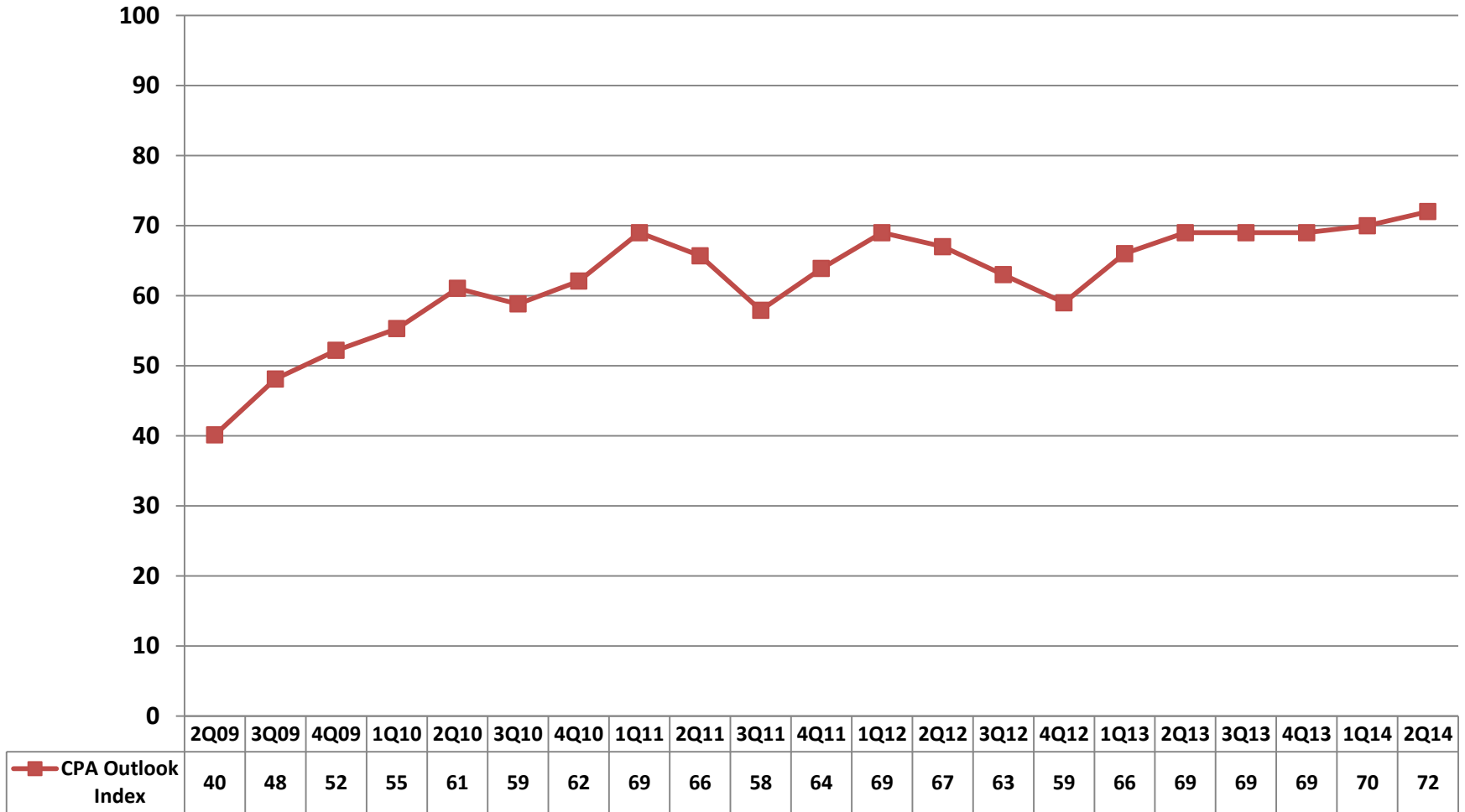
The CPA Outlook Index is a robust measure of sentiment about the U.S. economy that is supported by the unique insight and knowledge that CEOs, CFOs, Controllers, and other CPA executives have about the prospects for their own organizations, their expectations for revenues and profits, and their plans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

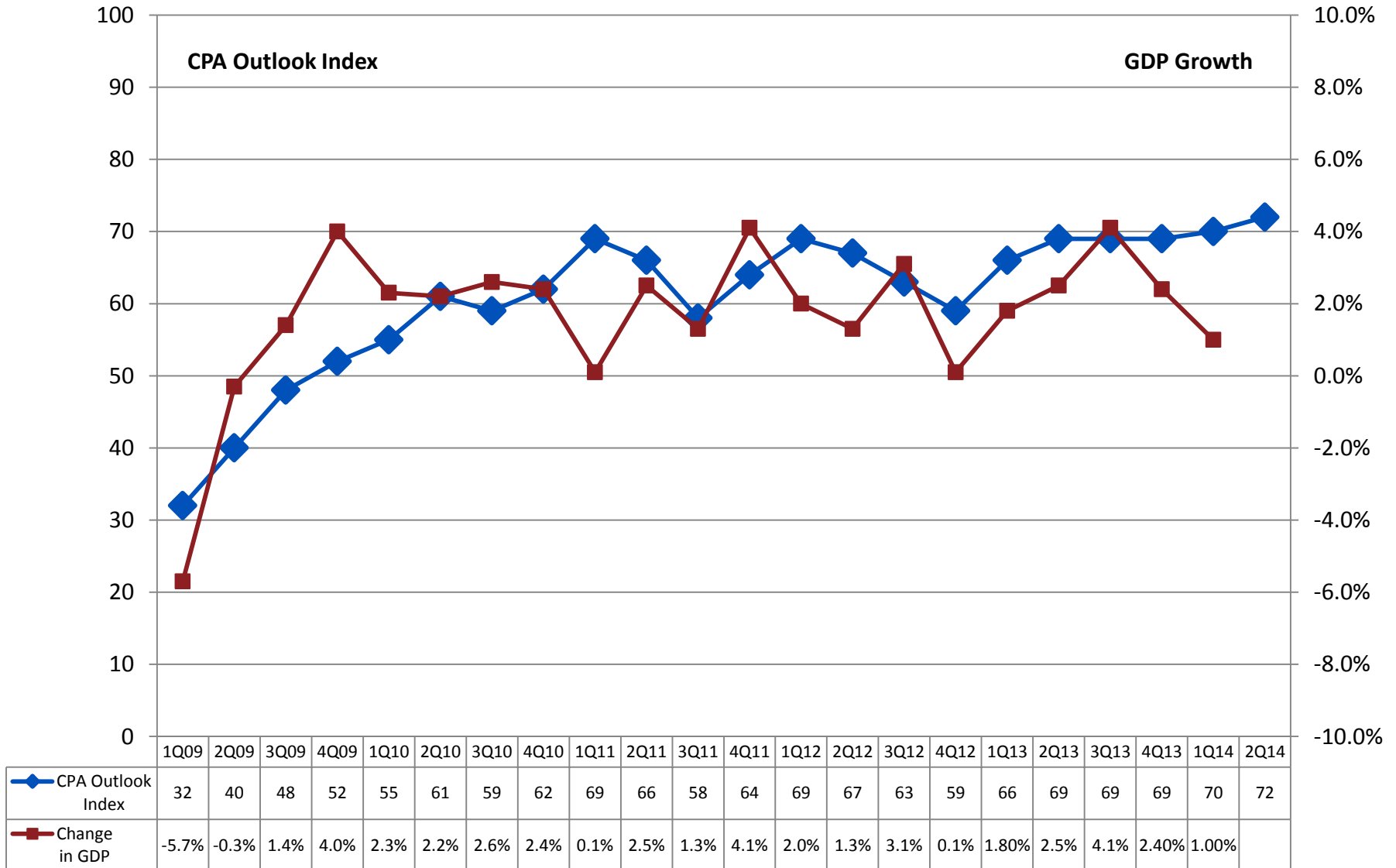
CPA Outlook Index (CPAOI)



CPA Outlook Index Component Indicators

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

CPA Outlook Index (CPAOI) vs GDP



U.S. & Organization Outlook

Outlook for the U.S. and Organizations

■ Optimism for the U.S. Economy passes 50% mark for first time since recession

- The percentage of executives optimistic about the US Economy increased from 49% in Q1 2013 to 51% in Q2 2014
- Improved prospects in the employment situation, economic growth, along with interest rates and quantitative easing were cited by the optimists
- Lingering concerns about leadership/politics and continuing concern about the employment situation were cited by those who are neutral or pessimistic

■ Organizational optimism and expansion plans also inch up

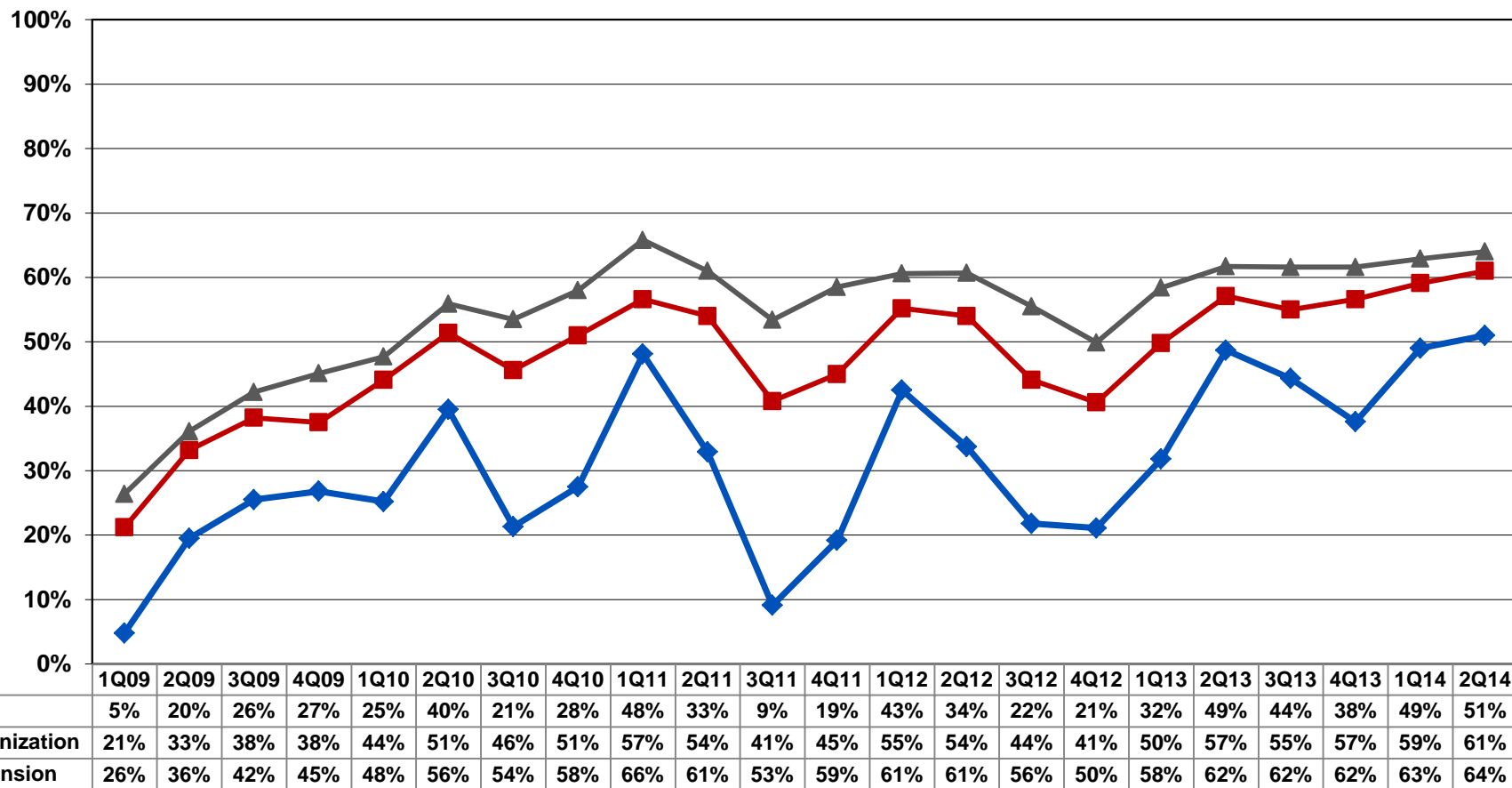
- Optimism about own company prospects increases from 59% in Q1 to 61% in Q2
- The number of companies expecting their business to expand increased slightly from 63% to 64%

■ Inflation concerns remain low

- Only 32% are concerned about inflation
- Labor costs continue to be the most pressing concern for 38% of respondents
- Concern about interest rates fell from roughly a quarter of respondents the past three quarters to only 17% in Q2

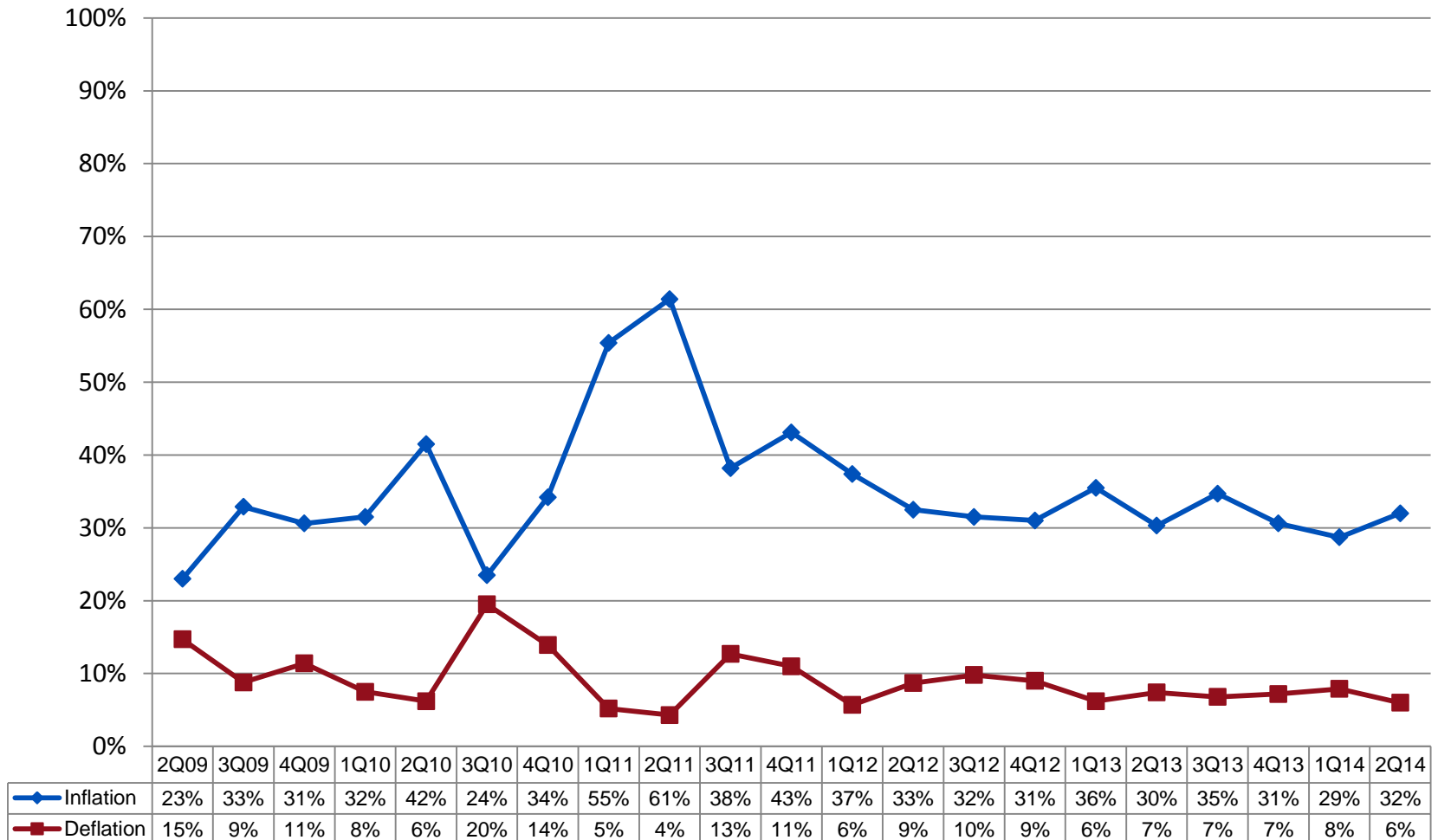
Optimism & Expansion

US, Organization, Expansion



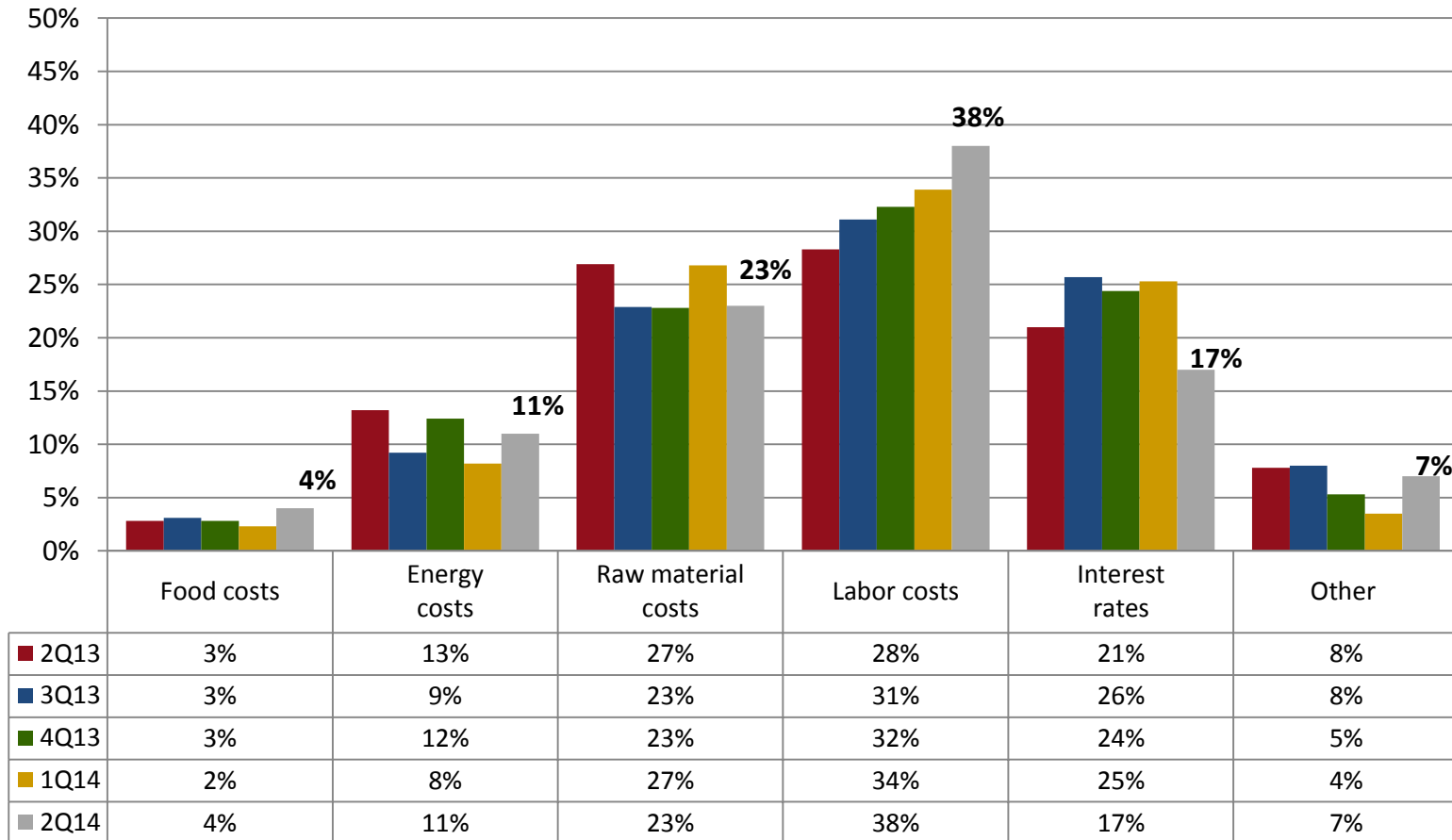
For your business, are you more concerned about inflation or deflation?

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 revenues improves; profit expectations constant

- Expected revenue increase inches up from 3.6% rate to 3.8%; expected profit increase of 2.9% remains unchanged

■ Headcount and related employee cost increases ease slightly; expected healthcare cost increase declines

- Headcounts are now expected to increase by 1.3% over the next year as compared to a projected increase of 1.5% in the 1Q 2014 survey
- Expected increases in salary and benefit costs ease from 2.2% in Q1 to 2.1% in Q2
- Anticipated healthcare cost increases declined to 5.7%, the lowest rate since Q3 2009
- Other expected “input price” continue to outpace expected price increases 2.4% to 1.8%

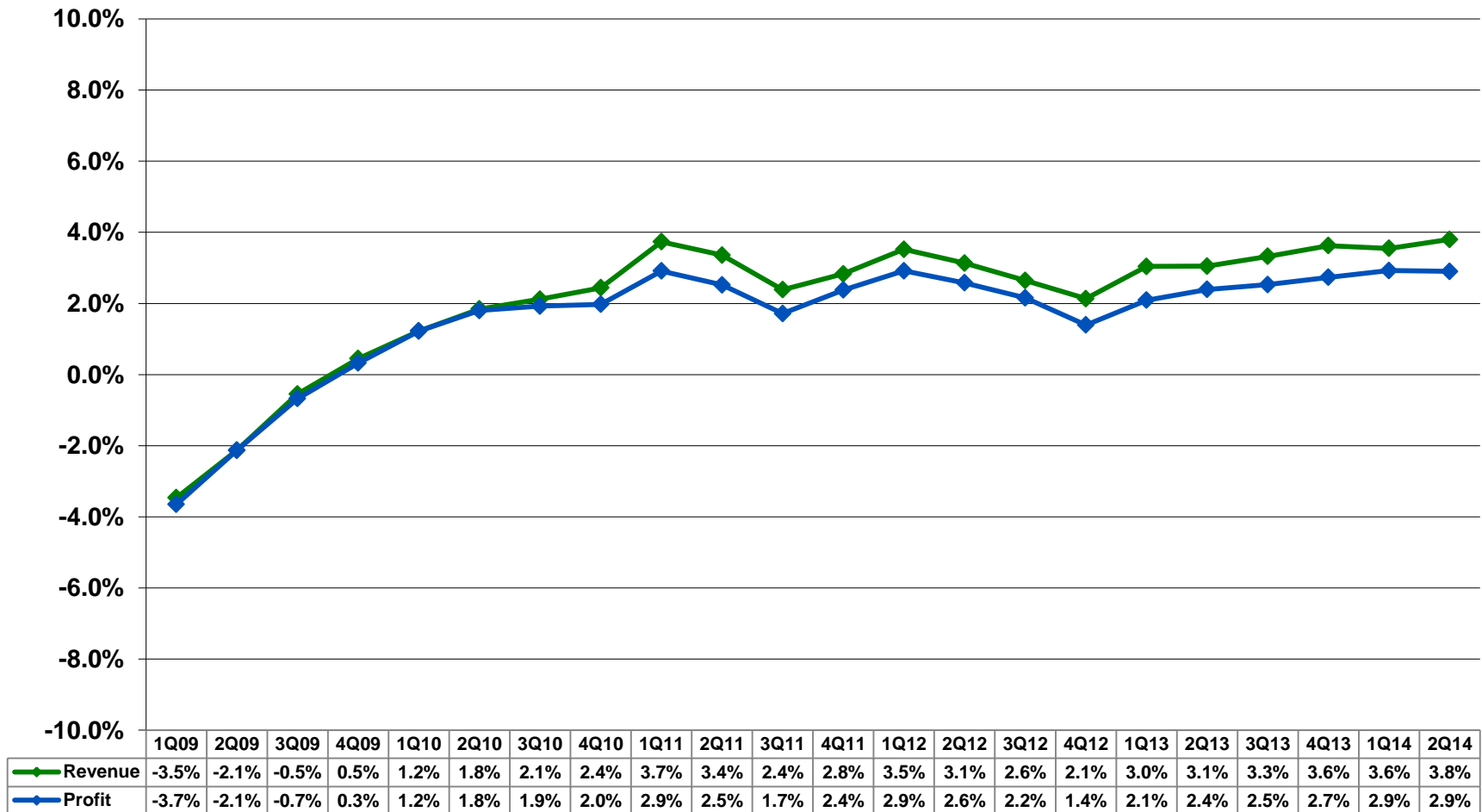
■ Key spending plans continue to be strong

- Increased spending for IT continues to be the strongest category of spending, easing only to 3.1% after improving in Q1 to a new post-recession high of 3.2%,
- Other capital spending improved another tenth to a new high rate of 2.4%
- Expected increase in training spending also improved to a new high rate of 1.8%
- Marketing spending and R&D spending increases remained relatively constant at 1.6% and 1.0%, respectively

Key Performance Indicators

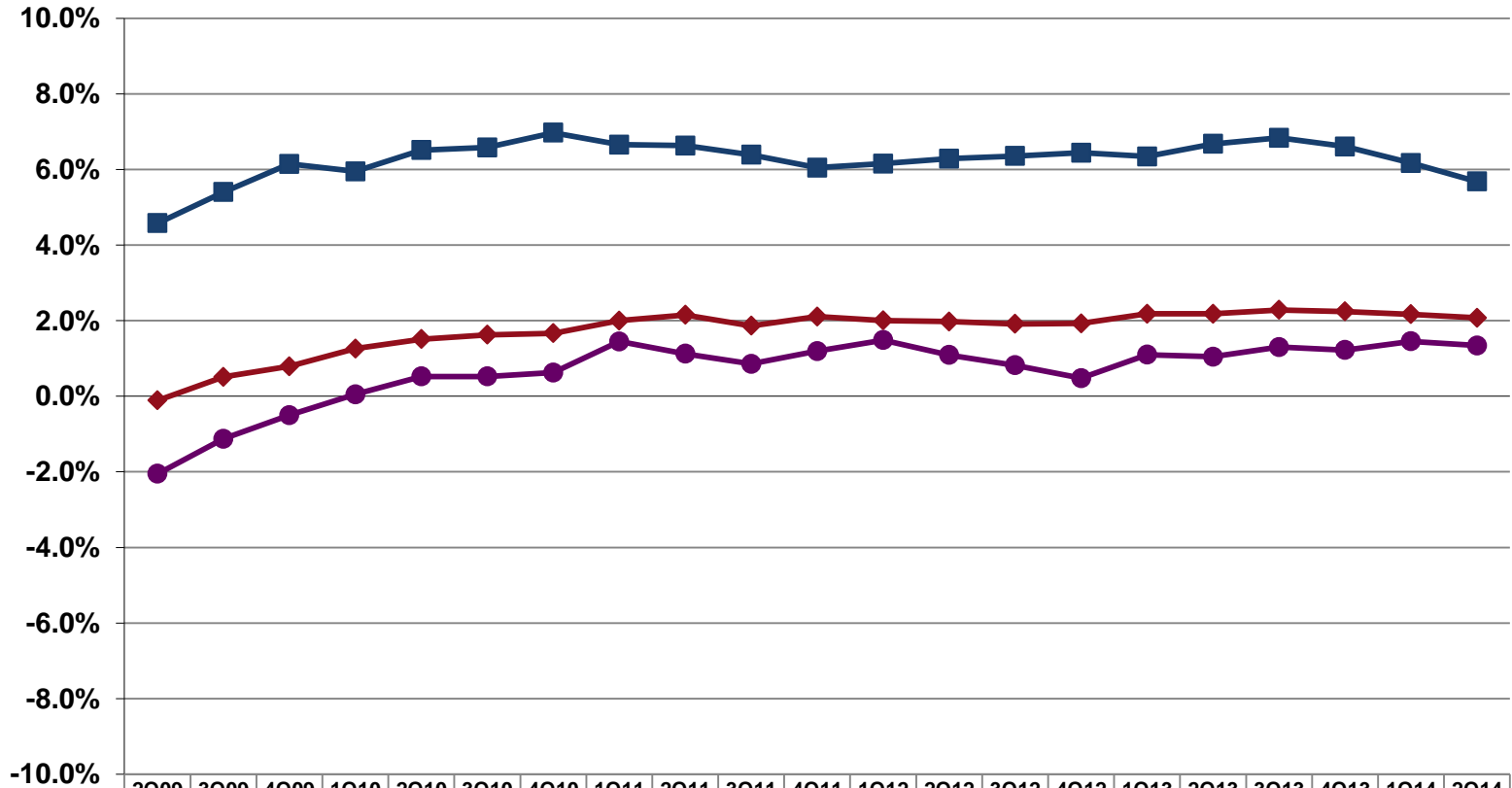
Expected Growth in Revenue and Profits

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



Employees, Salary & Benefits and Healthcare Costs

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

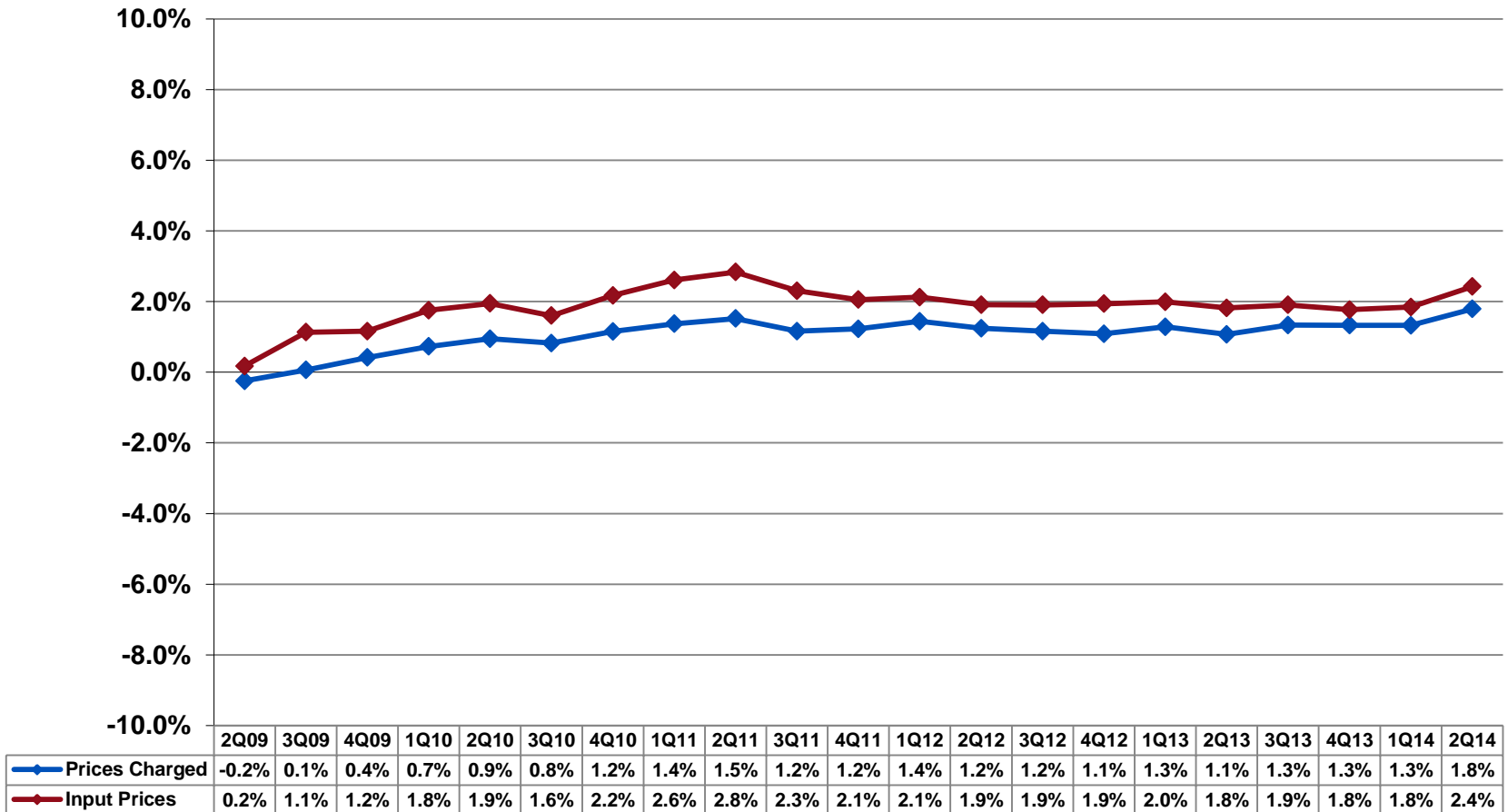


Employees	-2.1%	-1.1%	-0.5%	0.1%	0.5%	0.5%	0.6%	1.5%	1.1%	0.9%	1.2%	1.5%	1.1%	0.8%	0.5%	1.1%	1.0%	1.3%	1.2%	1.5%	1.3%
Salary & Benefits	-0.1%	0.5%	0.8%	1.3%	1.5%	1.6%	1.7%	2.0%	2.2%	1.9%	2.1%	2.0%	2.0%	1.9%	1.9%	2.2%	2.2%	2.3%	2.2%	2.2%	2.1%
Healthcare	4.6%	5.4%	6.1%	6.0%	6.5%	6.6%	7.0%	6.7%	6.6%	6.4%	6.0%	6.2%	6.3%	6.4%	6.4%	6.3%	6.7%	6.8%	6.6%	6.2%	5.7%

Pricing & Other Costs

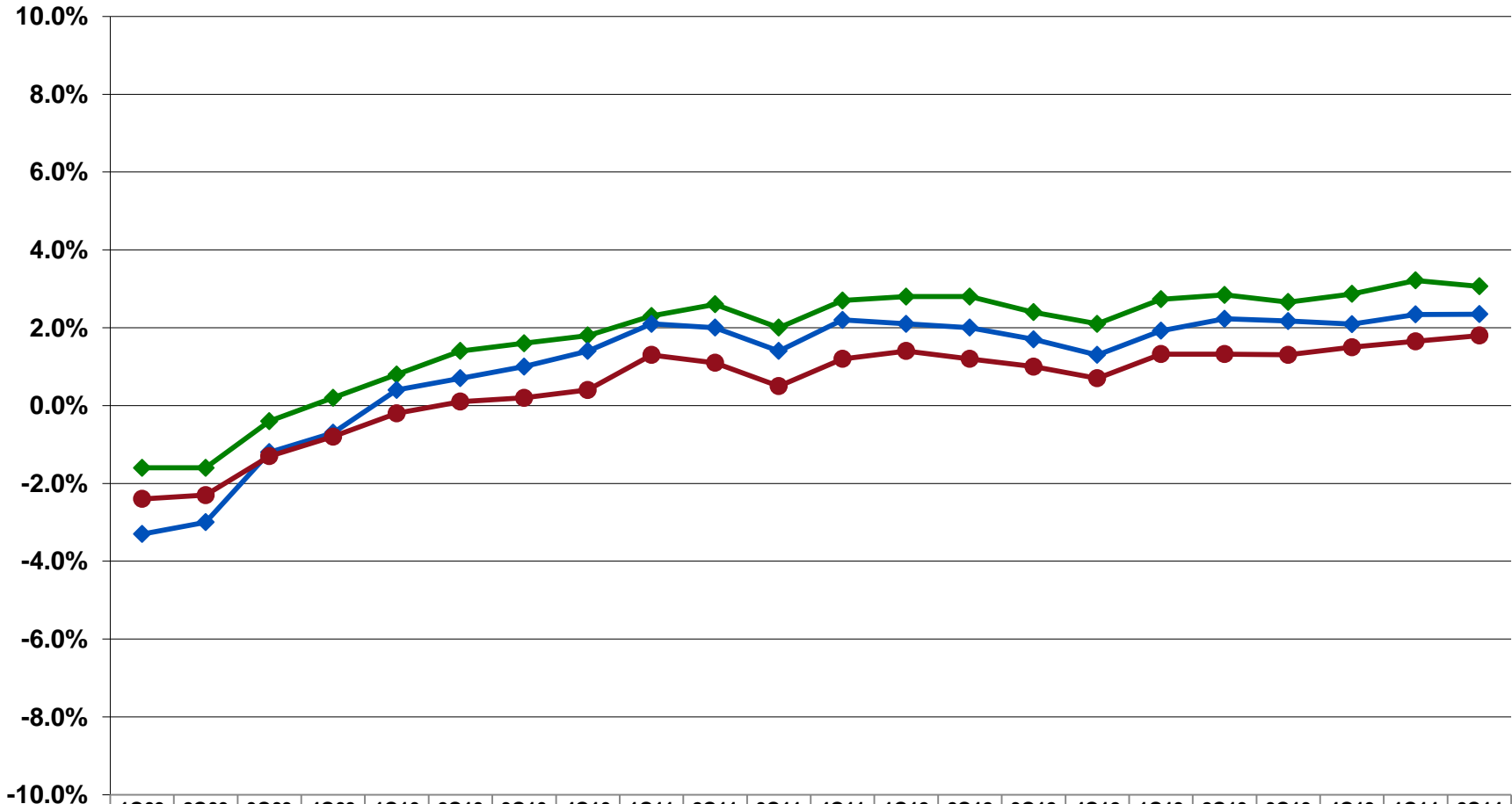
Average Change Expected

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



Spending Plans IT, Other Capital & Training

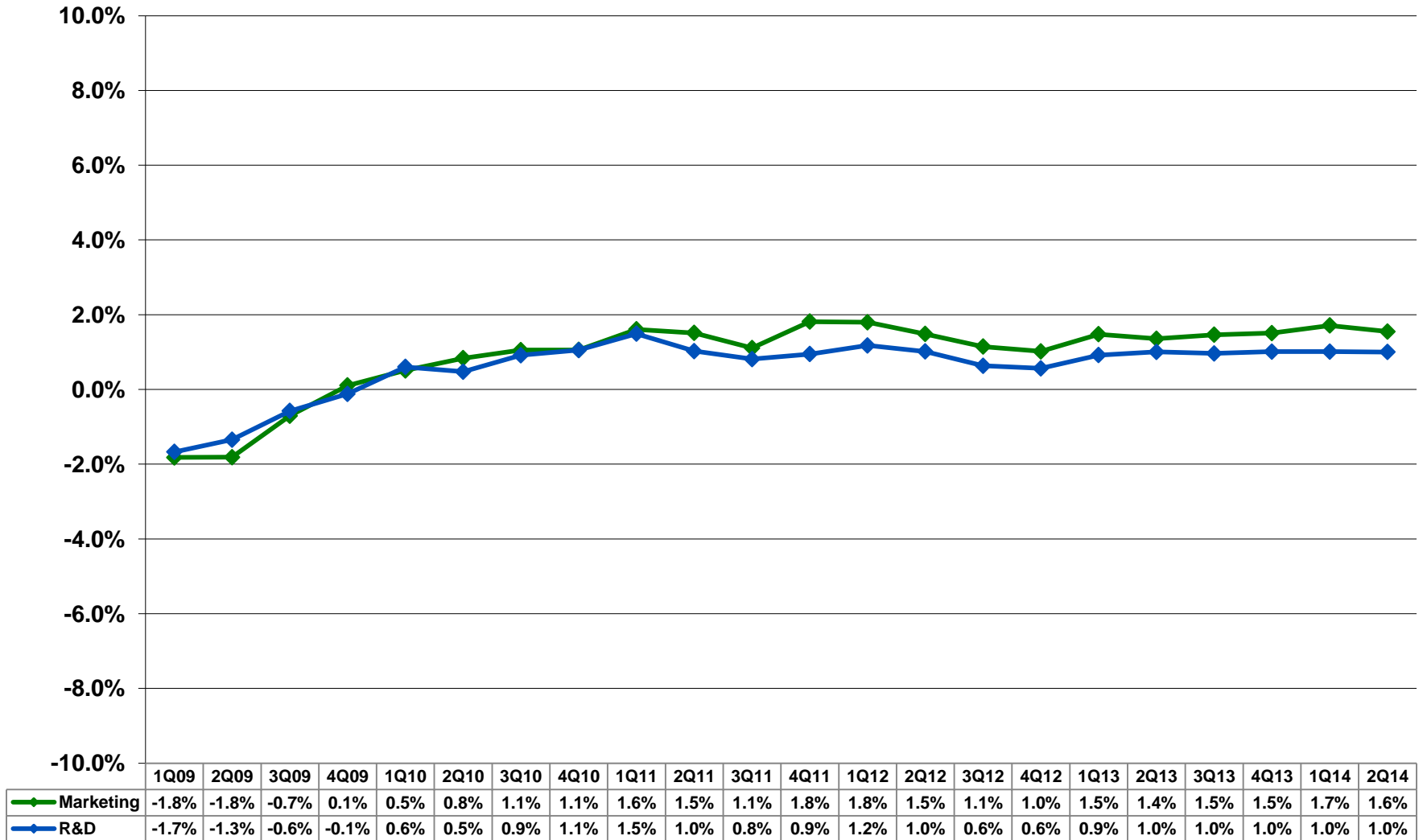
Thinking about the coming 12 months, please comment on the probable change for your organization for ...



	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
IT	-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%	3.2%	3.1%
Other Capital	-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%	2.3%	2.4%
Training	-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%	1.7%	1.8%

Spending Plans Marketing & R&D

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



Hiring Plans

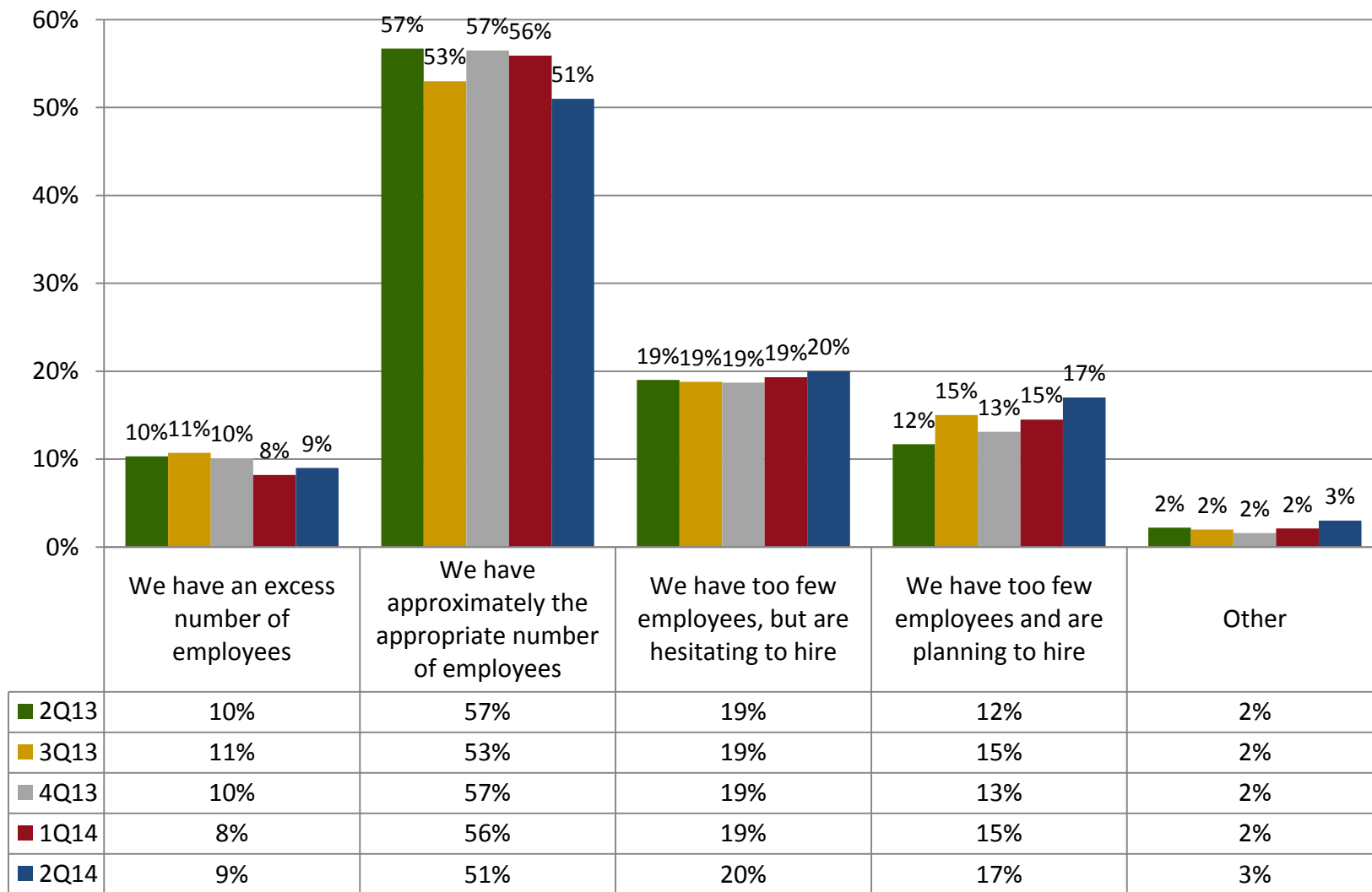
Hiring Plans

■ Hiring plans improve slightly in Q2 2014

- Slightly more than half of all companies (51%) say they have the right number of employees
- In Q2 2014 only 9% say they have too many employees, relatively consistent with recent quarters
- Roughly a third (37%) have too few employees
 - The percent of companies reluctant to hire increased a point from 19% in Q1 to 20% in Q2
 - However, the number of companies with too few employees that are planning to hire increased to 17% in Q2 from 15% in Q1 2014 and only 12% in Q2 2013

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)?



Liquidity

Liquidity

■ Liquidity and capital plans essentially unchanged

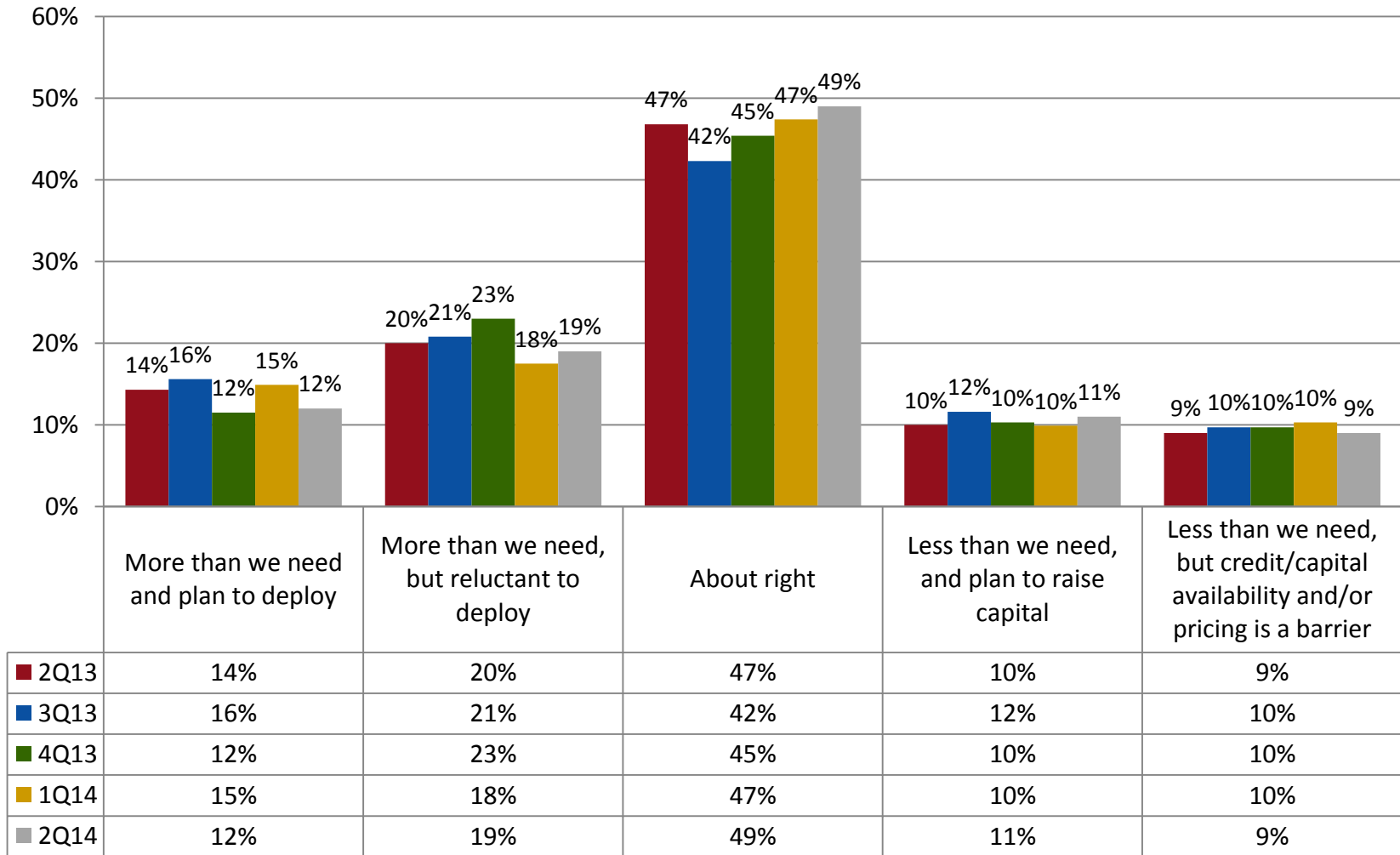
- The number of companies indicating they had about the right amount of liquidity increased from 47% to 49% in 2Q 2014
- The number indicating they had more than they needed and that are planning to deploy the excess declined from 15% to 12%;
- The number indicating reluctance to deploy their excess remained relatively constant, increasing from 18% in Q1 to 19% in Q2 after falling off from 23% in Q4 2013

■ Credit availability continues to be more challenging for smaller businesses

- The number of companies planning to raise needed capital increased slightly from 10% to 11%
- Overall, the number of companies expecting it to be more difficult to get necessary financing fell back to 9% at Q2 2014 after increasing to 12% in 1Q 2014
- However, 11% of small businesses anticipate that obtaining credit will be more difficult in the next quarter; only 4% of the very large business also feel that way.

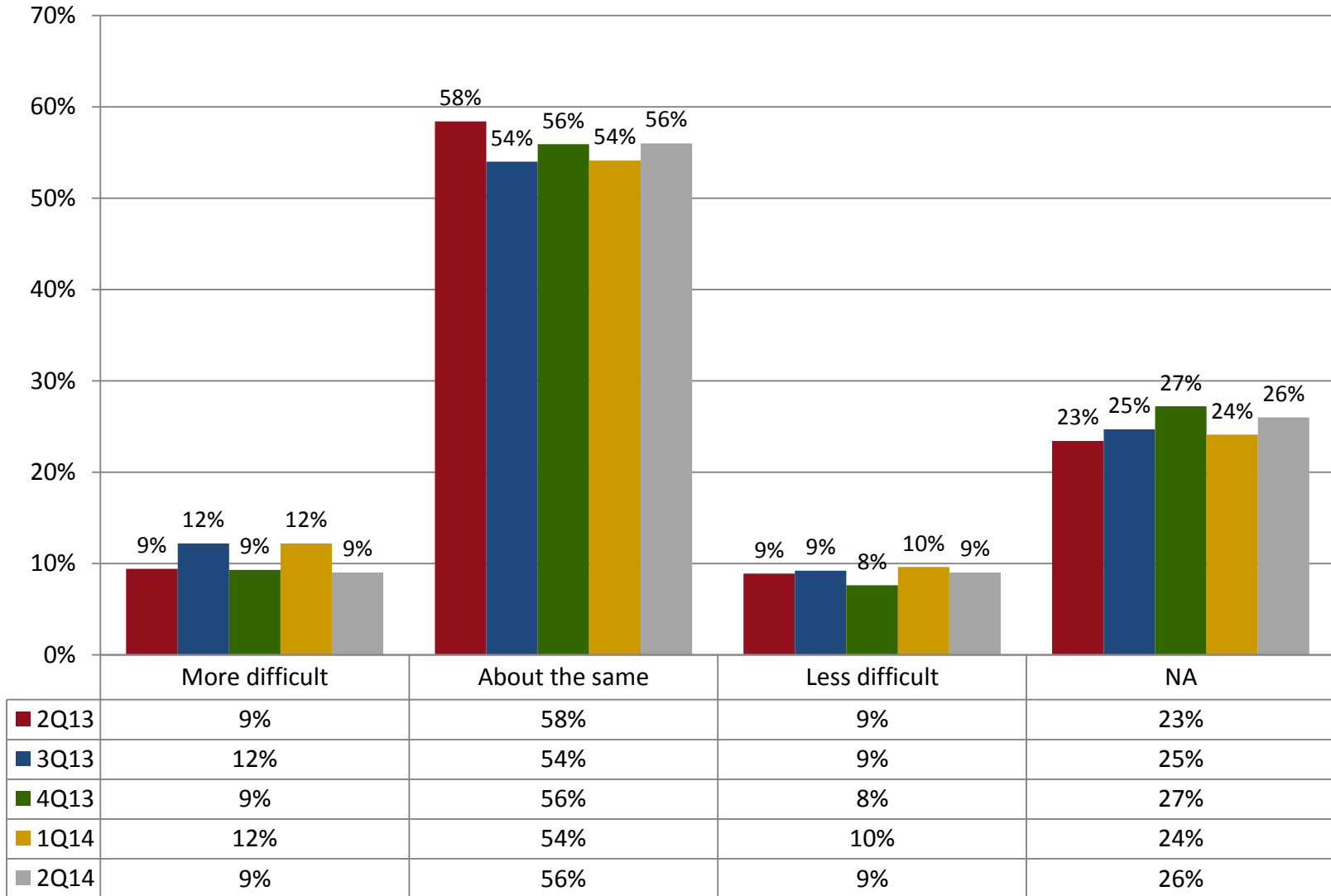
Cash & Liquidity Position

How would you characterize your organization's current liquidity position



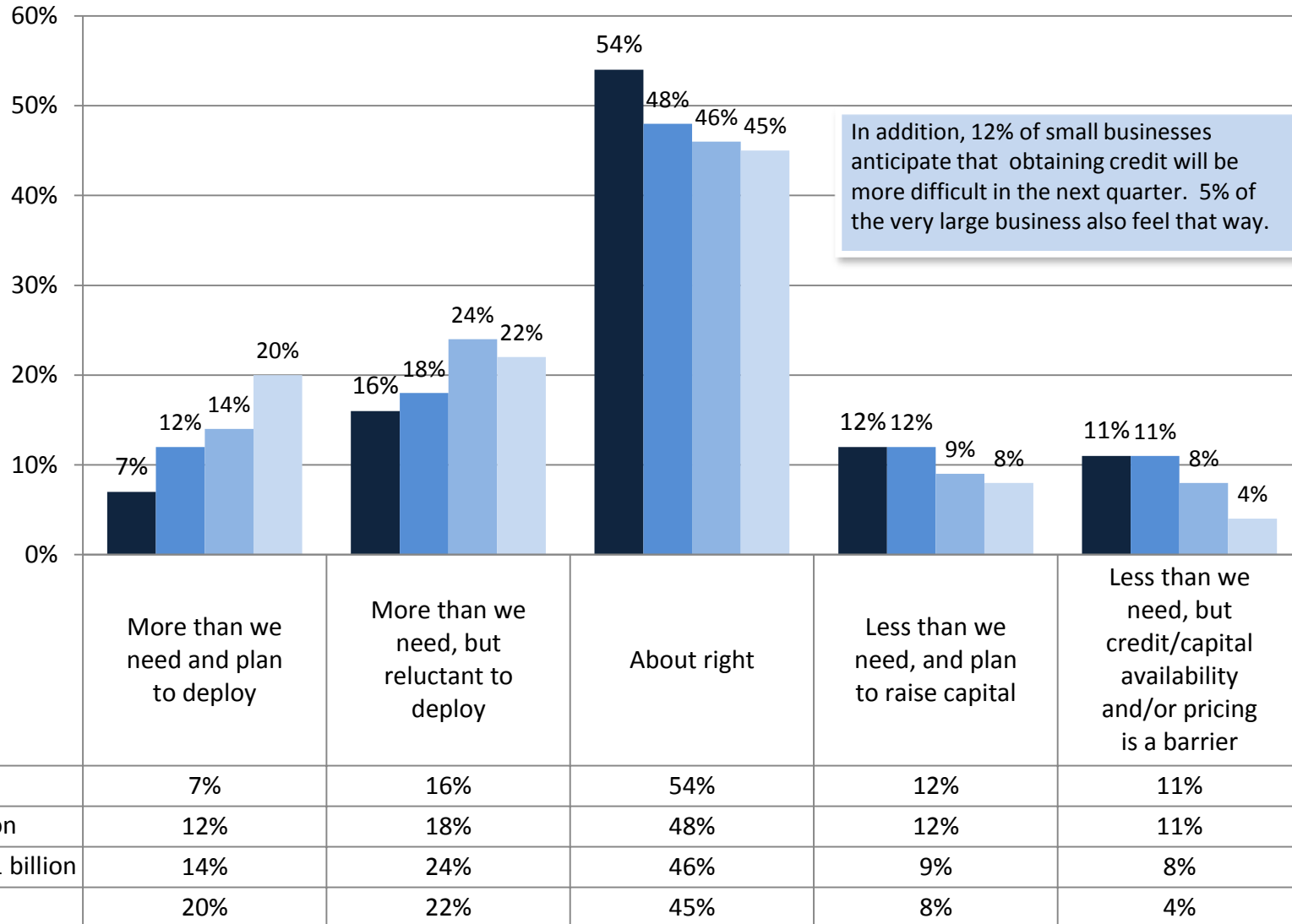
Difficulty Obtaining Required Financing

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 characterize your organization's current liquidity position



Top Challenges

Top Challenges Facing Organizations

- **Regulatory requirements/changes and employee and benefits costs maintain their top 2 rankings among organizational challenges**
- **Availability of skilled personnel advances again this quarter to the #3 slot; and staff turnover broke into the rankings at the #10 slot**
- **Domestic economic conditions, domestic competition and domestic political leadership hold their place in the #4, #5 and #6 slots**
- **Developing new products/services, stagnant/declining markets and changing customer preferences also hold their #7, #8 and #9 slots**

Top Challenges for Organizations

Please indicate the top three challenges for your organization

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

Outlook by

Industry, Region and Business Size

Industry, Region and Business-size Outlook - 1 of 2

■ Optimism up overall, but mixed across sectors

- Technology maintained its spot as the most optimistic sector, with 72% of respondents optimistic, after jumping to 80% in 1Q 2014
- Construction optimism eased from 73% to 69%; however, hiring plans in construction took over the top spot with an expected headcount increase of 3.3%
- Manufacturing optimism eased from 66% to 62% and hiring plans also eased from 2.1% to 1.7%
- Finance and insurance fell off again to 64% after rebounding to 71% in 1Q 2014, real estate continued its rebound, increasing from 64% to 69%
- Professional services also improved slightly from 62% in 1Q to 64%
- Retail trade improved again from 59% to 62% optimistic; however, the wholesale trade sector continues to lag improving only a point to 49% of wholesale trade respondents being optimistic,
- Healthcare—other (55%), and healthcare providers (48%), both made significant improvements but continue to be least optimistic

Industry, Region and Business-size Outlook - 2 of 2

■ Expected hiring by sector also mixed

- Construction took over the top spot with expected hiring at 3.3%
- Professional services took over the top spot in 1Q 2014, and continues to expect increased staffing at a 3.0% rate, compared to only 1.6% in 4Q 2013
- Technology hiring continues to be strong, but declined slightly again to 2.8% after jumping significantly to 3.6% in 4Q 2013
- Retail trade declined from a 2.5% rate in Q1 to a 1.9% rate in Q2
- Manufacturing also fell off from 2.1% to 1.7%
- Healthcare providers are expecting to increase headcount at a 1.5% rate vs. 1.3%
- Healthcare-other (pharma, devices, etc.) jumped from only a 0.5% rate to 1.9%

■ Midwest and South regions show strong improvement

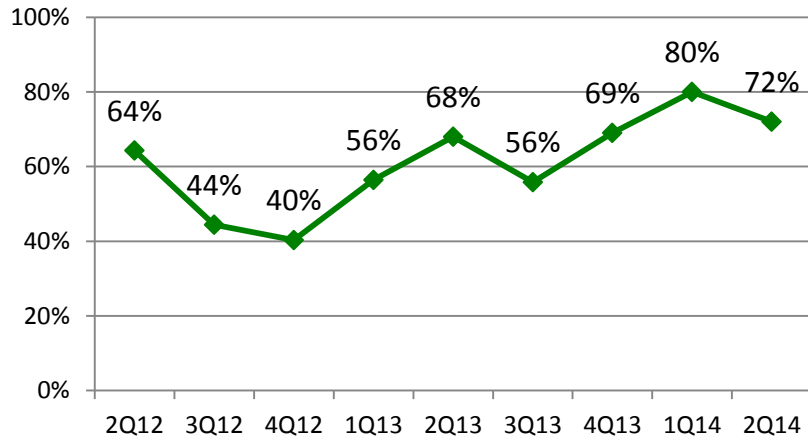
- Optimism increased to 55% from 60% in the Midwest, and from 53% to 62% in the South
- The West and Northeast both declined slightly from first quarter levels

■ Expansion plans improve for smaller companies, ease for larger

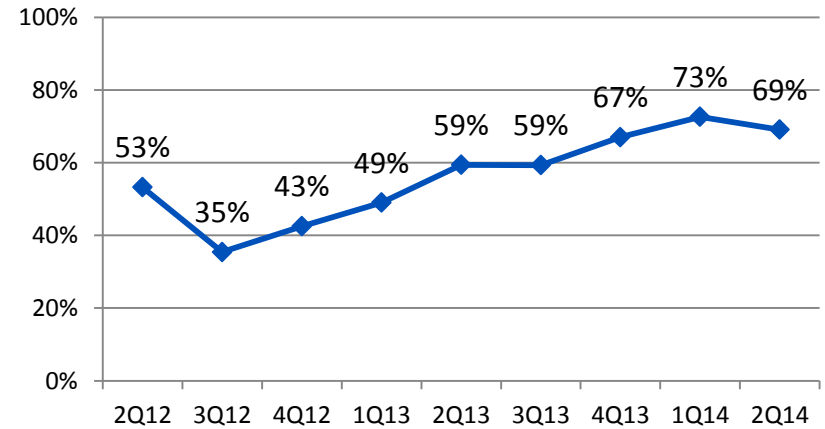
- The number of companies with revenues < \$10 million with plans to expand improved to 59% the highest percentage since 1Q 2010
- Essentially 2/3 of companies in all three larger revenue categories expect to expand

Organization Optimism by Industry

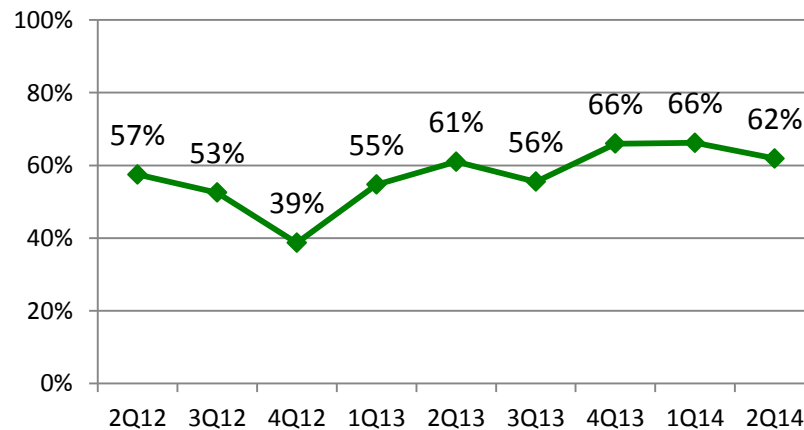
Technology



Construction

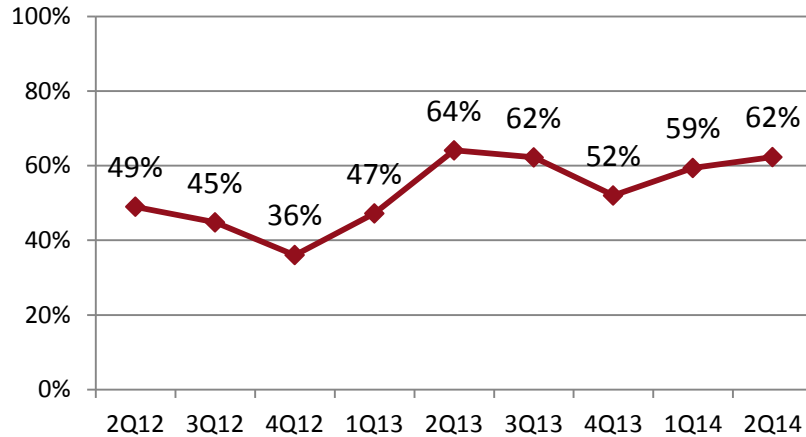


Manufacturing

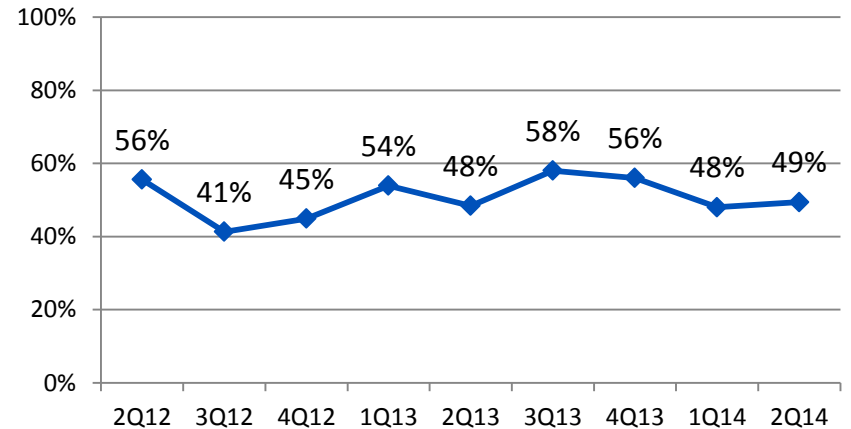


Organization Optimism by Industry

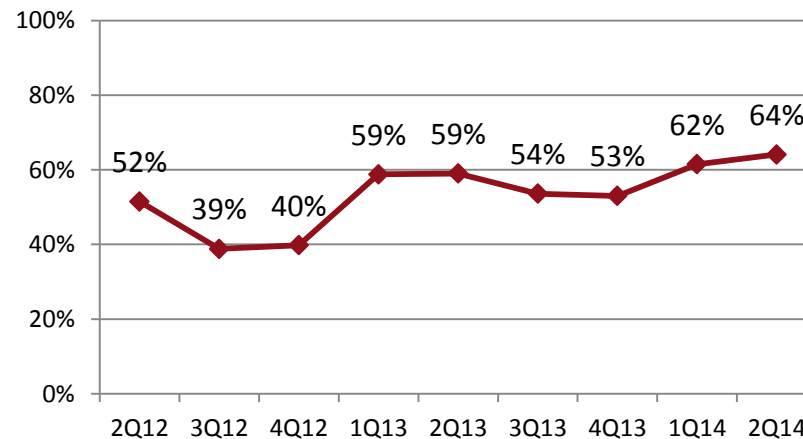
Retail Trade



Wholesale Trade

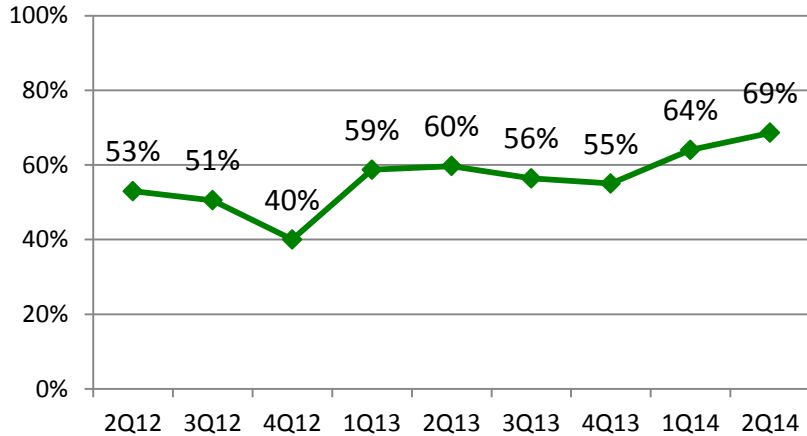


Professional Service

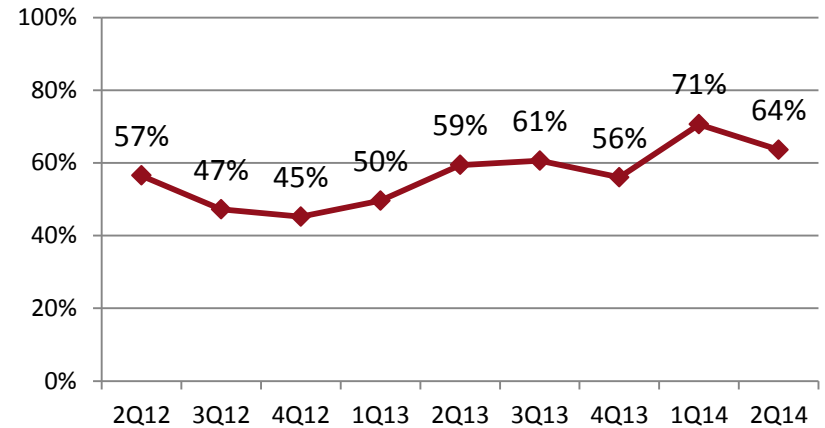


Organization Optimism by Industry

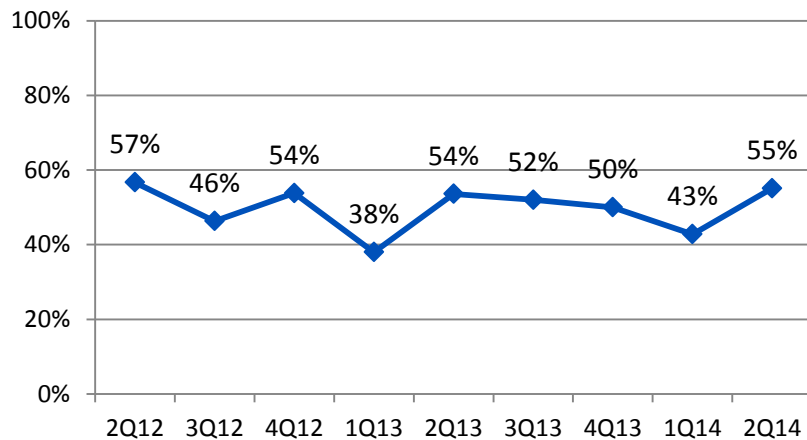
Real Estate



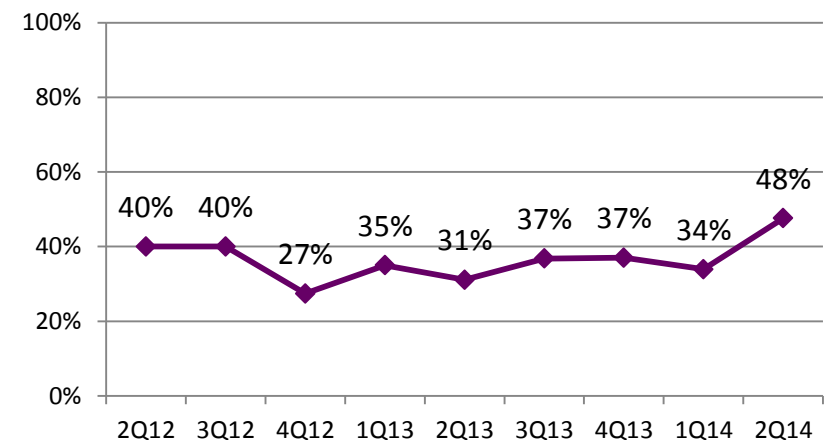
Finance & Insurance



Health Care Other

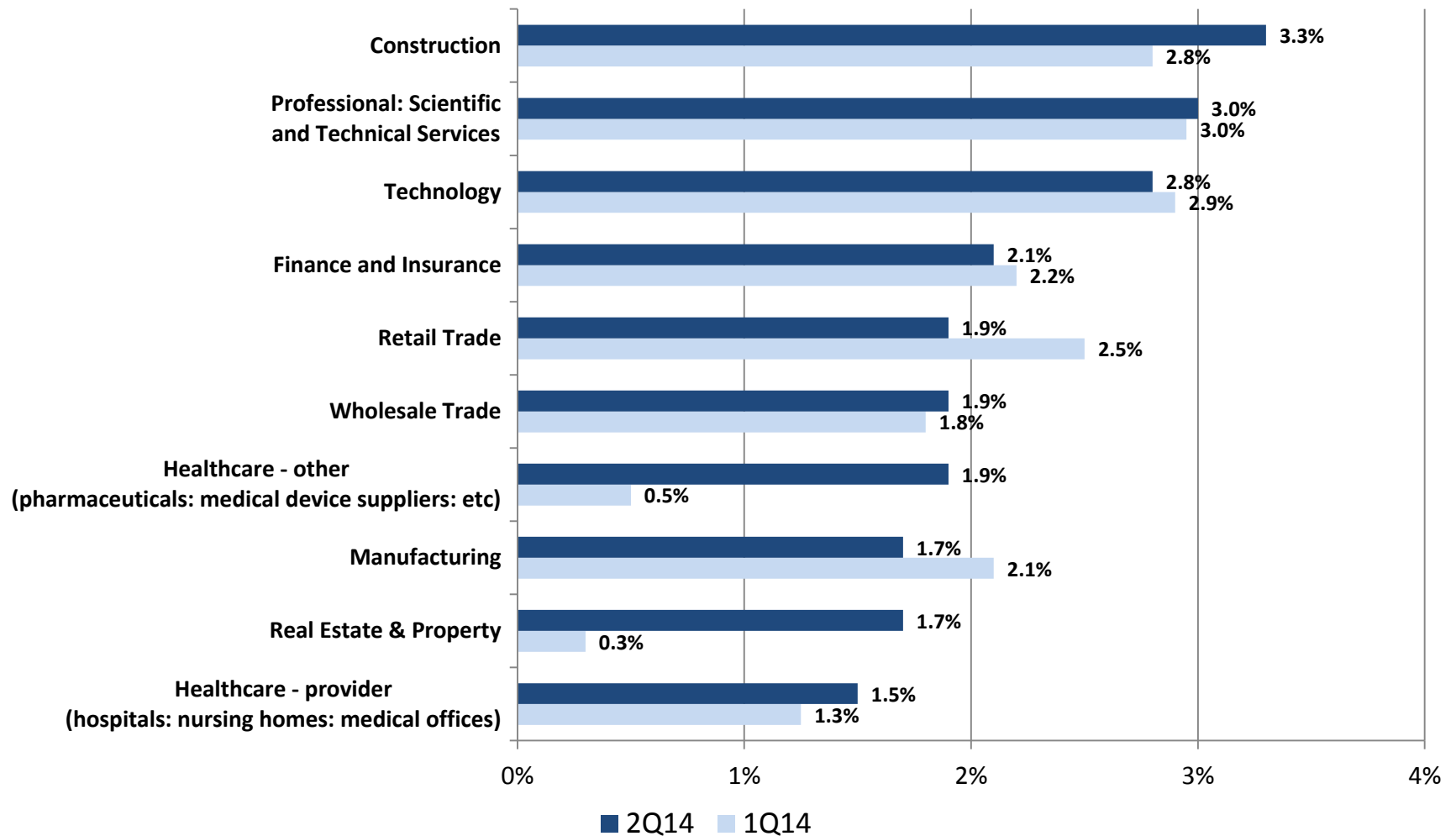


Health Care Provider



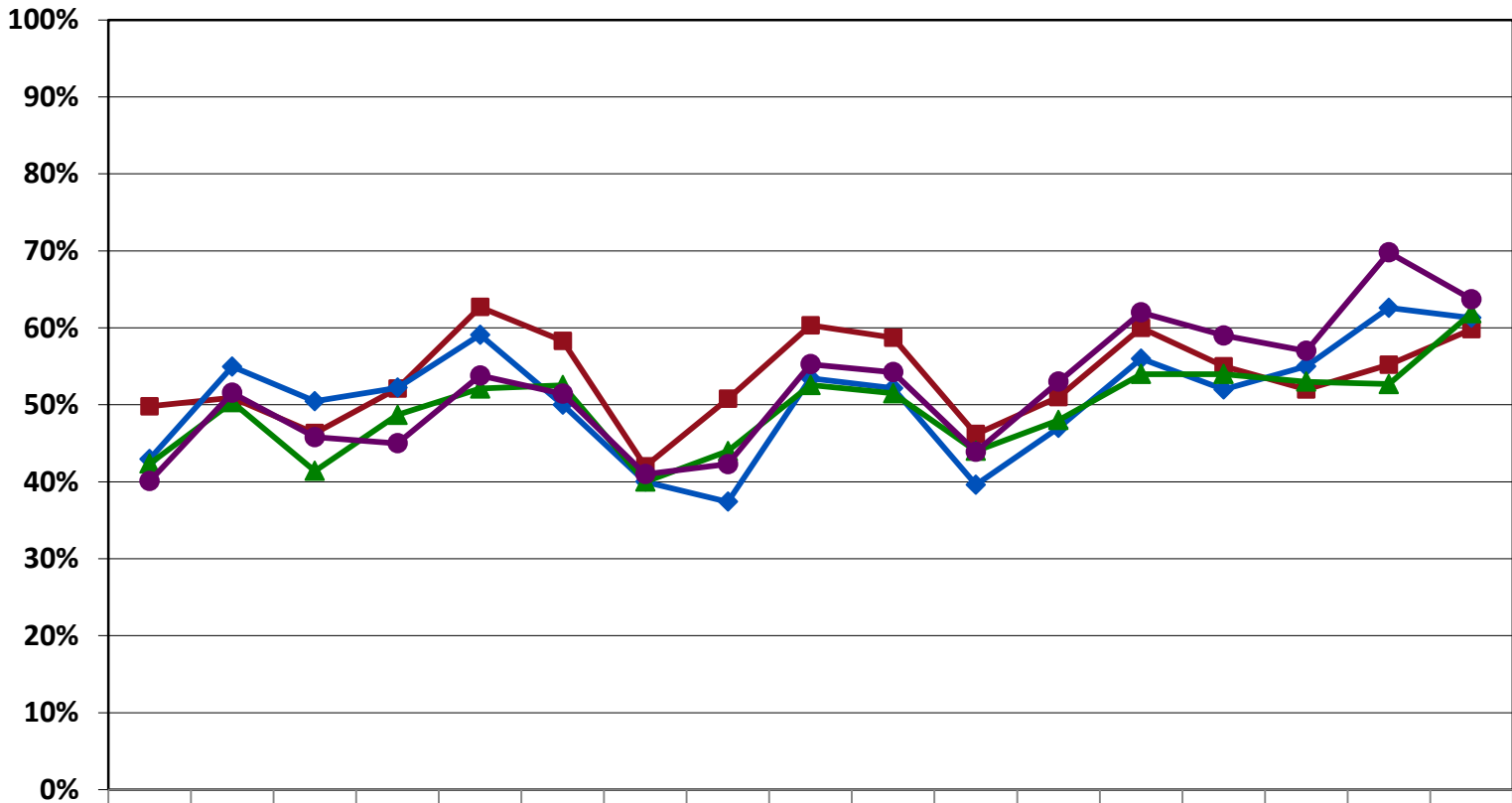
Expected Employment Change by industry

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



Organization Optimism by Region

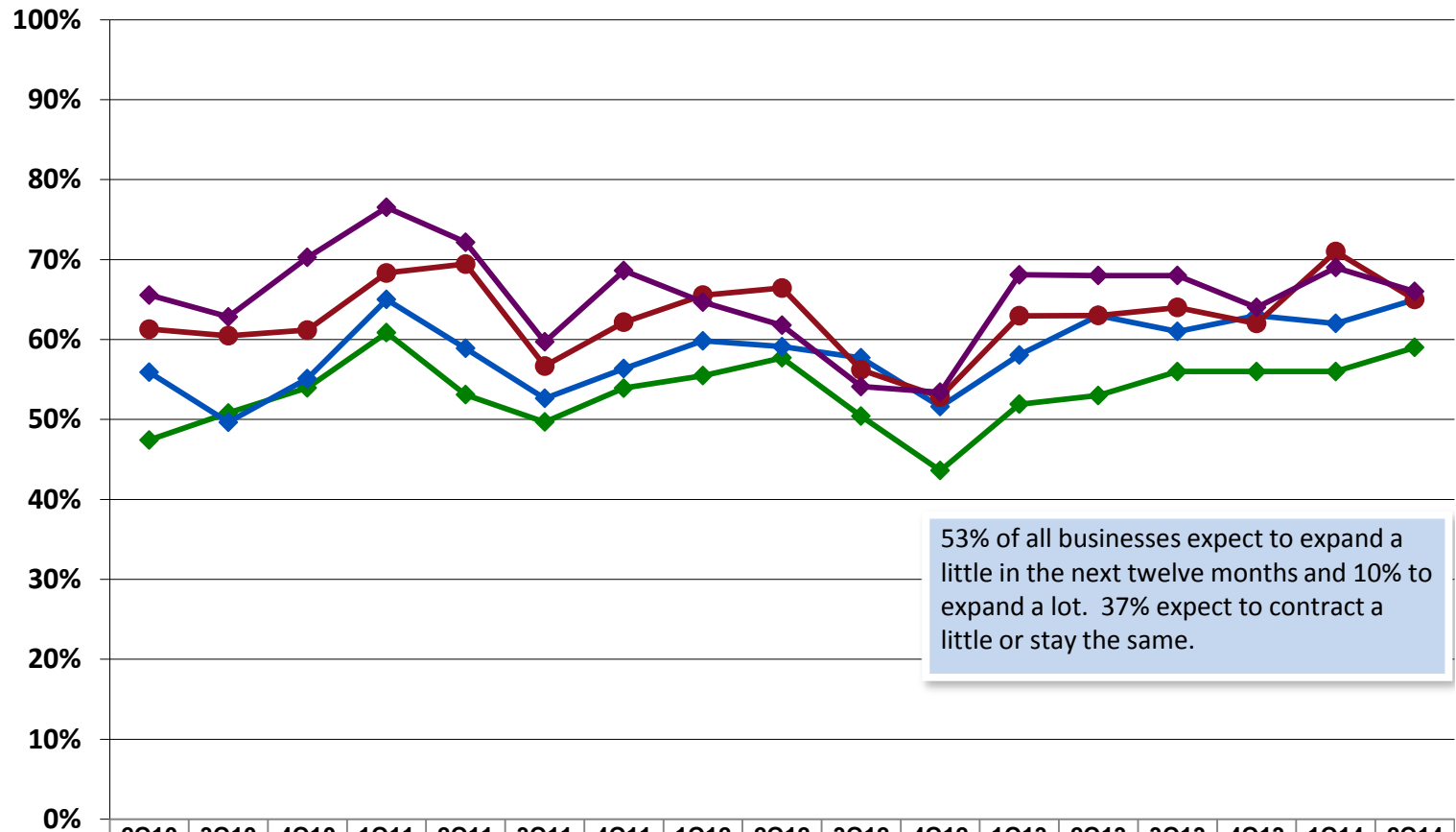
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months.



	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14
Midwest	50%	51%	46%	52%	63%	58%	42%	51%	60%	59%	46%	51%	60%	55%	52%	55%	60%
Northeast	43%	55%	50%	52%	59%	50%	40%	37%	53%	52%	40%	47%	56%	52%	55%	63%	61%
South	42%	50%	41%	49%	52%	53%	40%	44%	53%	51%	44%	48%	54%	54%	53%	53%	62%
West	40%	52%	46%	45%	54%	51%	41%	42%	55%	54%	44%	53%	62%	59%	57%	70%	64%

Expansion Plans by Business Size

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

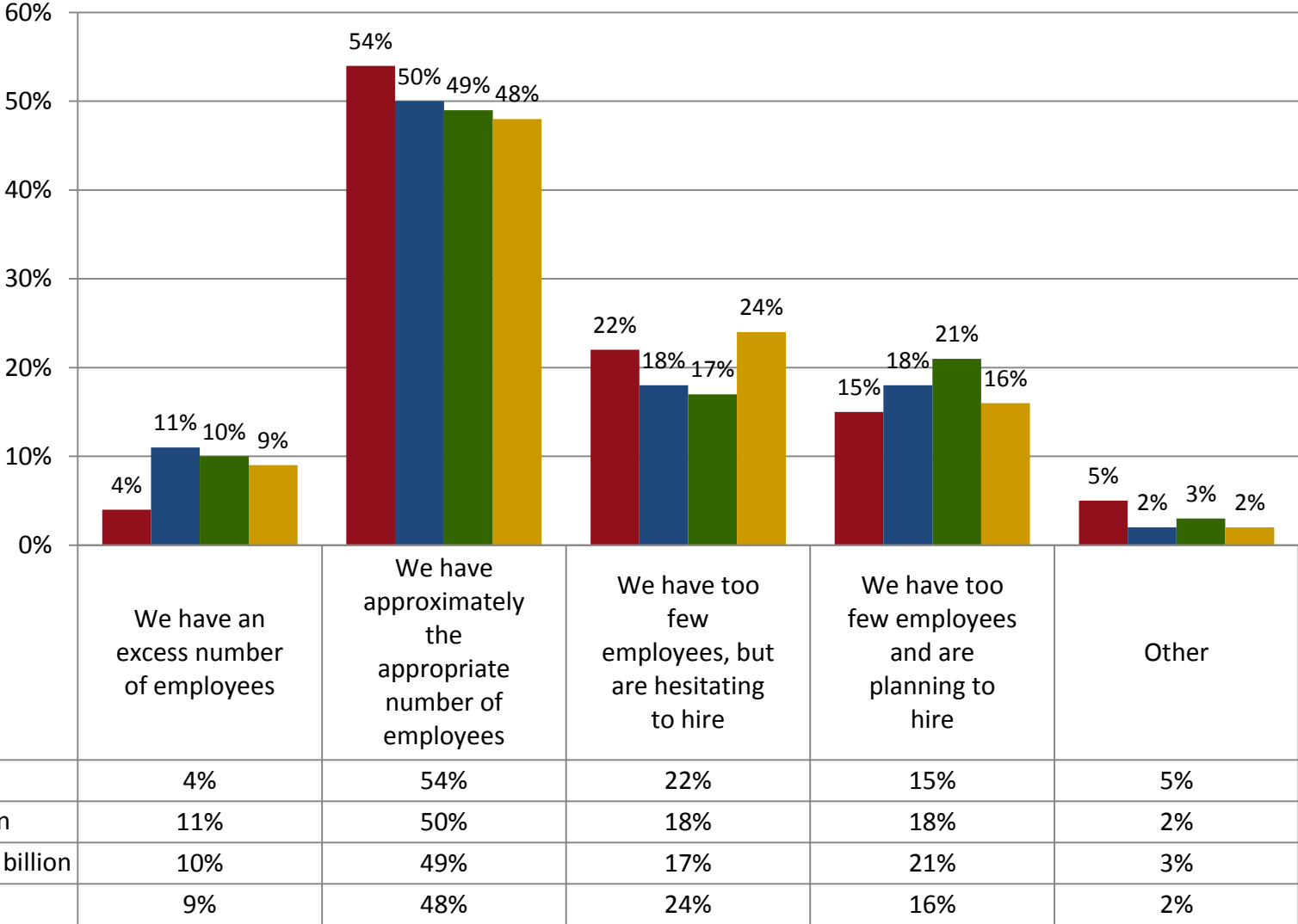


53% of all businesses expect to expand a little in the next twelve months and 10% to expand a lot. 37% expect to contract a little or stay the same.

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

Small businesses are least likely to have excess employees and most hesitant to hire

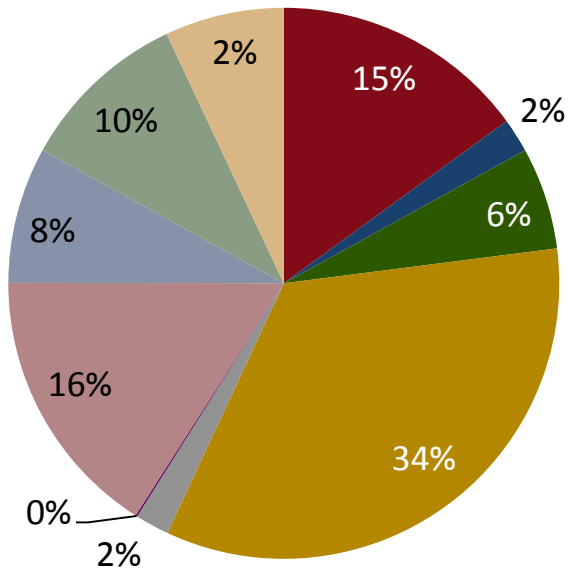
Given current conditions, how would you characterize your overall staffing situation relative to your needs (i.e., do you have excess capacity or are employees stretched)?



Demographics

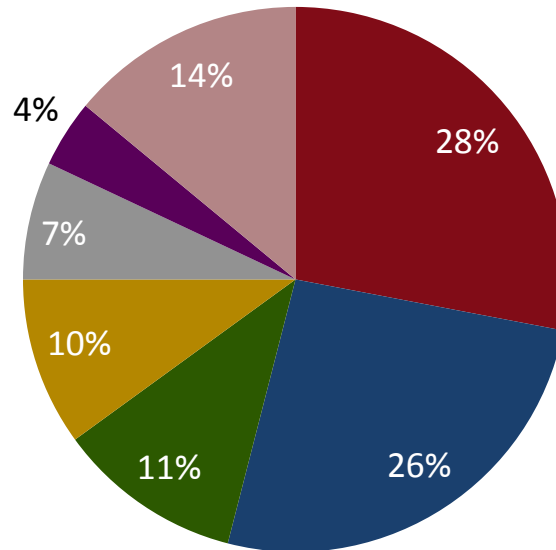
Demographics

Position



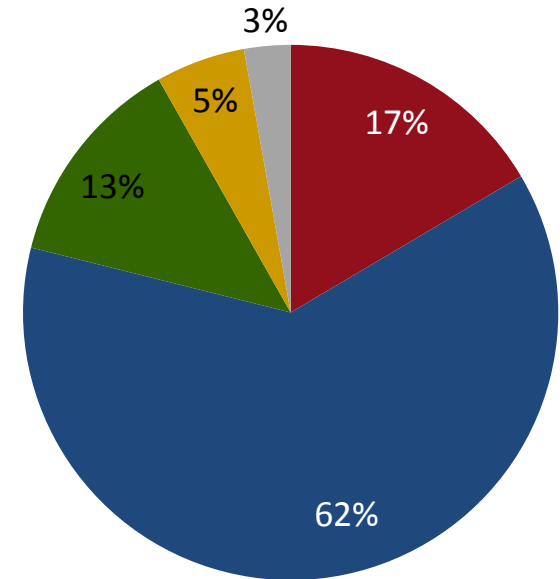
- CEO/President
- COO
- VP
- CFO
- CAO/CAE
- CIO
- Controller
- Director
- Accounting, Audit, Tax or Technology Manager
- Other

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



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2Q 2014

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