



AICPA

Business and Industry Economic Outlook Survey

Detailed Survey Results — 2Q 2016

Survey Background

- **Conducted between May 10-26, 2016**
- **Quarterly Survey**
- **CPA decision makers (primarily CFOs, CEOs and Controllers)**
- **AICPA members in Business & Industry only**
- **744 qualified responses**

Survey Highlights

■ CPA Outlook Index recovers five points

- Overall index improves from 63 to 68
- U.S. economy optimism index component improved 12 points from 47 to 59
- Organization optimism and expansion plans also improved 5 and 6 points to 68 and 69, respectively

■ Revenue, profit, hiring and spending indicators improve across board

- Revenue index increases six points to 74 and profits index increases from 60 to 63
- Hiring component continues to be the softest, but improves from 59 to 63
- IT (76) and Other Capital (70) spending improve 3 points each; Training and Development spending remains constant at 67

■ Optimism improves across most major sectors; remains constant in manufacturing and construction

- After falling off sharply at Q4 2015, 50% of both retail and wholesale trade respondents are now optimistic
- Professional services rebounded sharply from 46% optimistic in Q1 to 70% in Q2; Technology also rebounded from 53% to 61%
- Manufacturing optimism remained constant at 48%; construction optimism also remained constant at 58%, while Real Estate improved from 52% optimistic in Q1 to 58% in Q2

CPA Outlook Index (CPAOI)

CPA Outlook Index

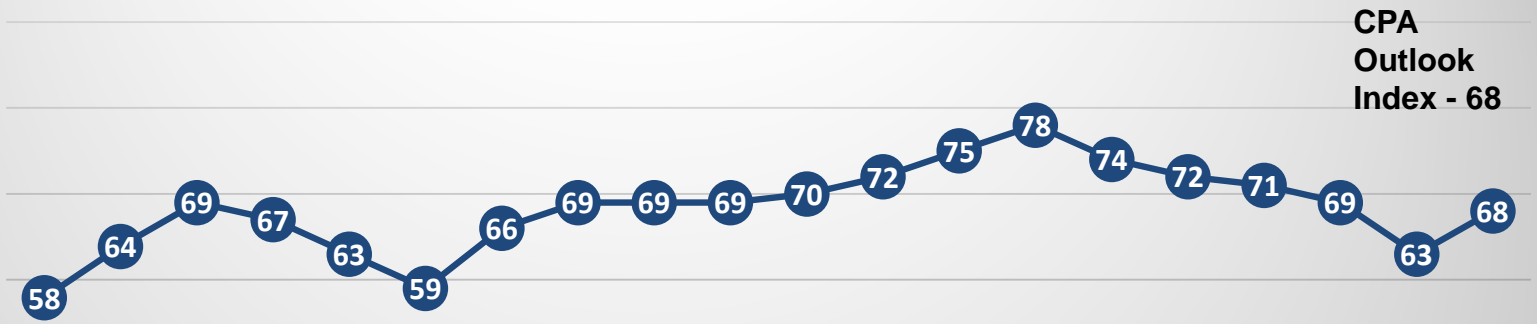
The CPA Outlook Index is a robust measure of sentiment about the U.S. economy that is supported by the unique insight and knowledge that CEOs, CFOs, Controllers, and other CPA executives have about the prospects for their own organizations, their expectations for revenues and profits, and their plans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

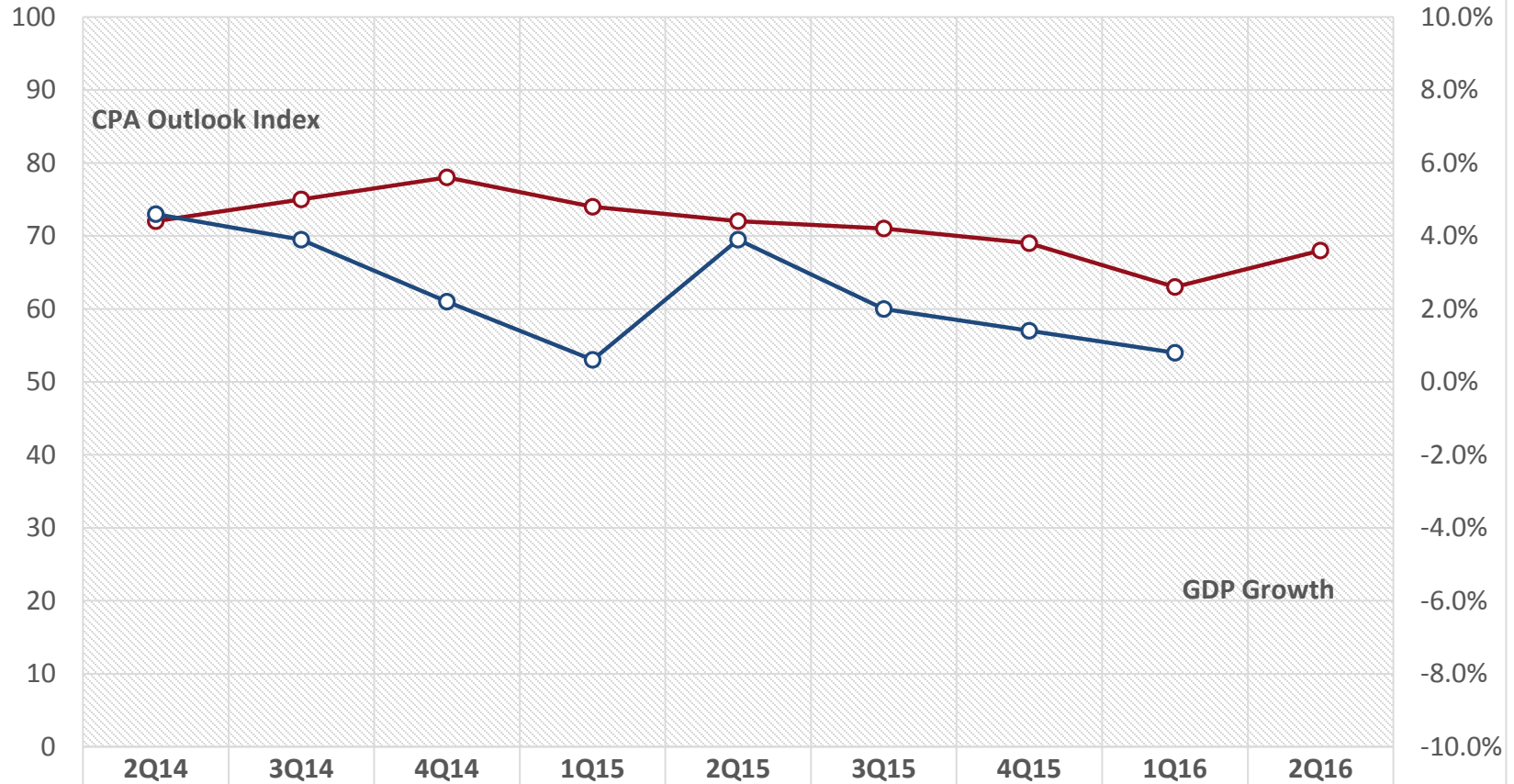


	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
CPA Outlook Index	58	64	69	67	63	59	66	69	69	69	70	72	75	78	74	72	71	69	63	68

CPA Outlook Index Component Indicators

Component	2Q15	3Q15	4Q15	1Q16	2Q16	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	68	67	64	47	59	↑12	↓09
Organization Optimism	73	73	70	63	68	↑05	↓05
Expansion Plans	72	72	70	63	69	↑06	↓03
Revenue	75	76	74	68	74	↑06	↓01
Profits	69	71	67	60	63	↑03	↓06
Employment	67	66	67	59	63	↑04	↓04
IT Spending	77	77	77	73	76	↑03	↓01
Other Capital Spending	72	72	72	67	70	↑03	↓02
Training & Development	71	69	68	67	67	→00	↓04
Total CPAOI	72	71	69	63	68	↑05	↓04

CPA Outlook Index (CPAOI) vs. GDP



—○— CPA Outlook Index	72	75	78	74	72	71	69	63	68
—○— Change in GDP	4.6%	3.9%	2.2%	0.6%	3.9%	2.0%	1.4%	0.8%	

U.S. & Organization Outlook

Outlook for the U.S. and Organizations

■ Optimism for the U.S. Economy recovers slightly

- After declining to only 28% optimistic in Q1, the percentage of executives optimistic about the U.S. Economy improved in Q2 to 37%; pessimism also eased somewhat with only 21% now pessimistic, down from 34% at Q1
- Consumer confidence, employment and low interest rates were cited by optimists. Political and economic instability were cited by pessimists. Election year and oil prices were cited by both.

■ Organizational optimism and expansion plans also recover

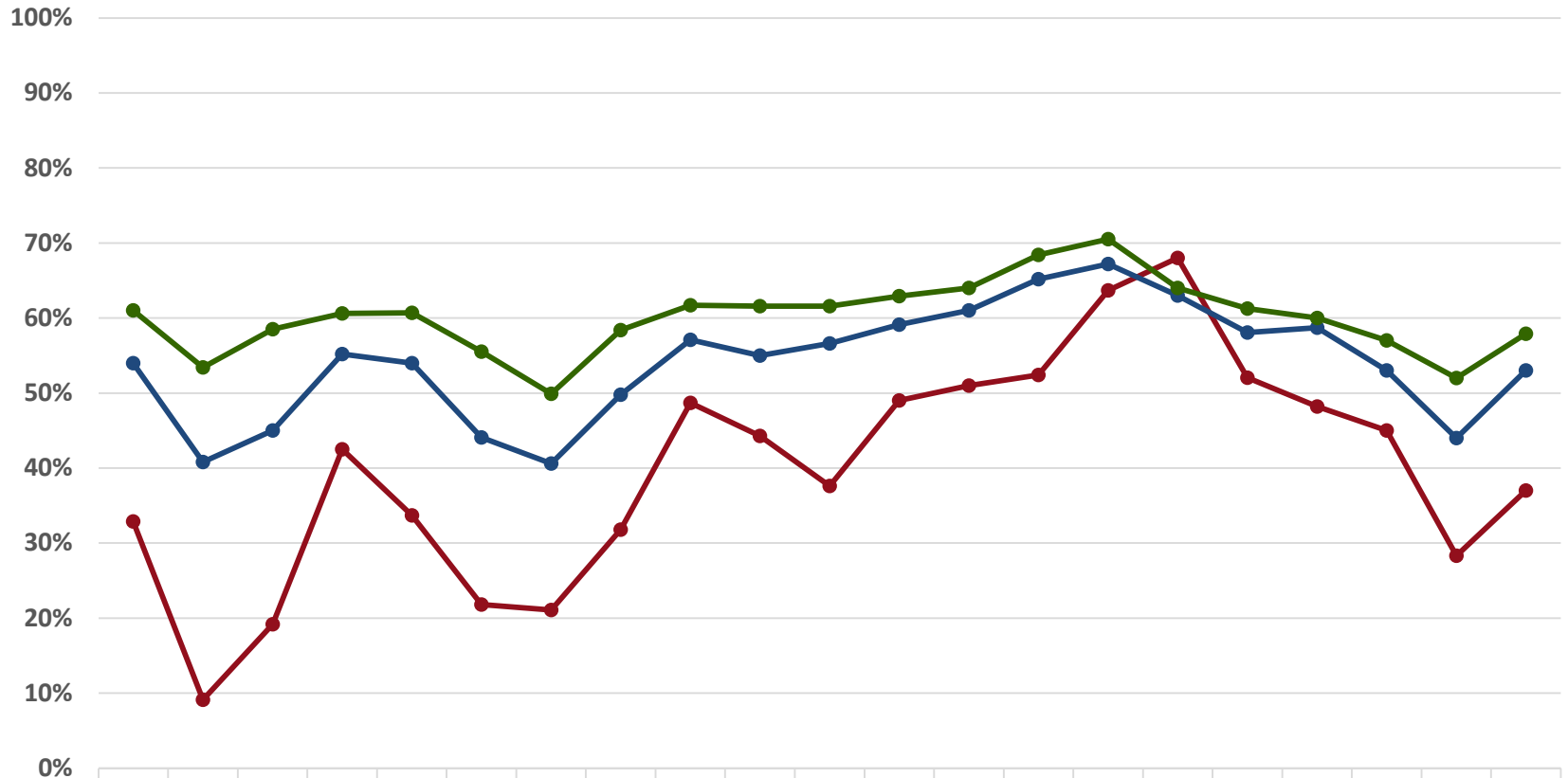
- Optimism about own company prospects improved from 44% in Q1 to 53% in Q2
- The percentage of companies expecting their business to expand also recovered from 52% in Q1 to 58% in Q2
- The percentage of companies expecting their businesses to contract eased a bit to 19% in Q2, down from 25% in Q1

■ Concern about inflation vs. deflation flips back

- After declining to only 14% in Q1, we now see 23% being concerned about inflation in Q2, the same as Q4, 2015
- Conversely, only 12% are concerned about deflation, after jumping to 22% in Q1 from 11% in Q4, 2015
- Labor costs continued as being the most pressing concern for 44% of respondents; raw material costs continue to be the top concern for 20%
- Concern about energy costs increased from 6% to 11%, while interest rates eased another 3 points from 19% to 16%

Optimism & Expansion

U.S., Organization, Expansion

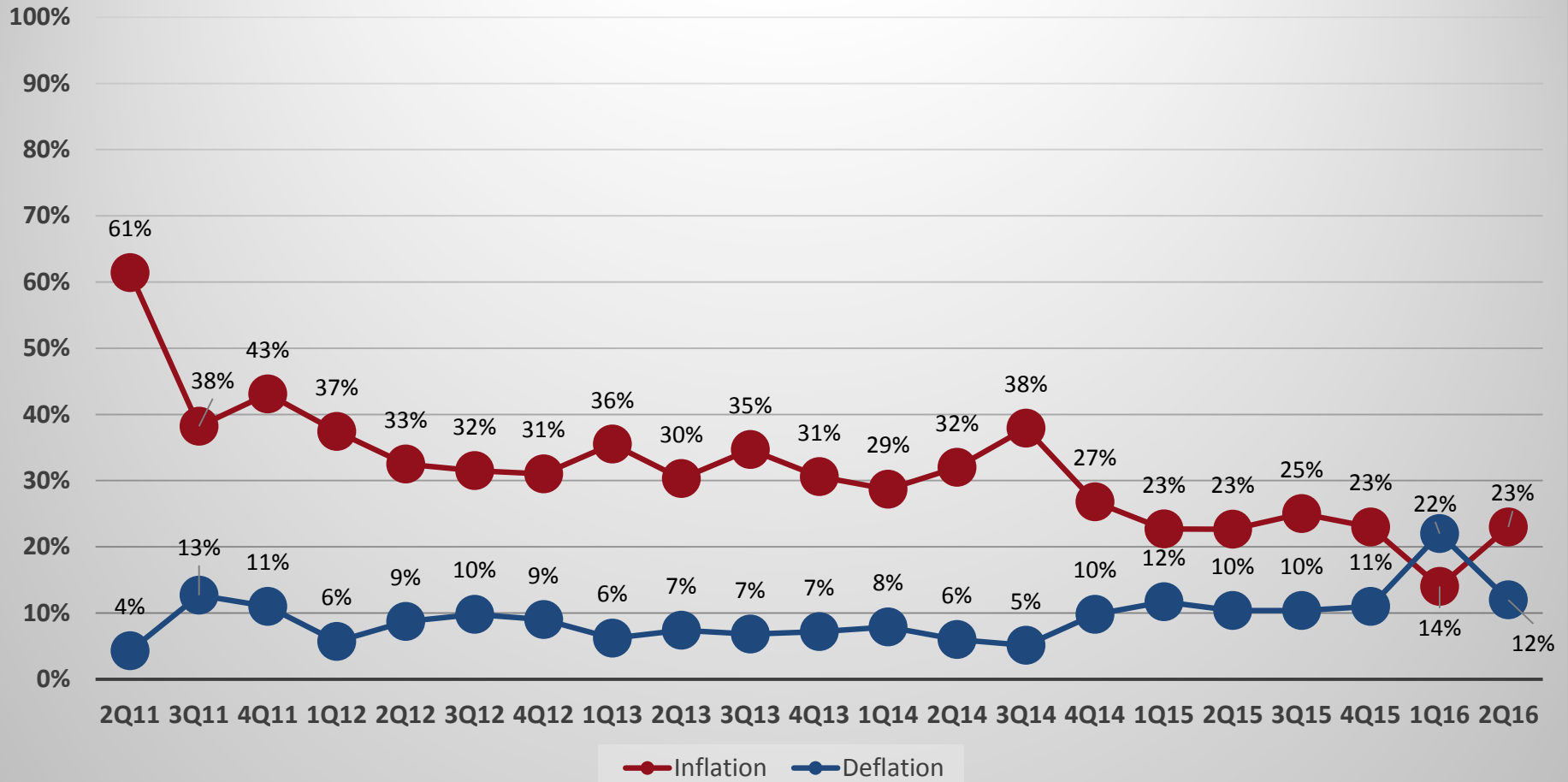


	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
U.S.	33%	9%	19%	43%	34%	22%	21%	32%	49%	44%	38%	49%	51%	52%	64%	68%	52%	48%	45%	28%	37%
Organization	54%	41%	45%	55%	54%	44%	41%	50%	57%	55%	57%	59%	61%	65%	67%	63%	58%	59%	53%	44%	53%
Expansion	61%	53%	59%	61%	61%	56%	50%	58%	62%	62%	62%	63%	64%	68%	71%	64%	61%	60%	57%	52%	58%

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

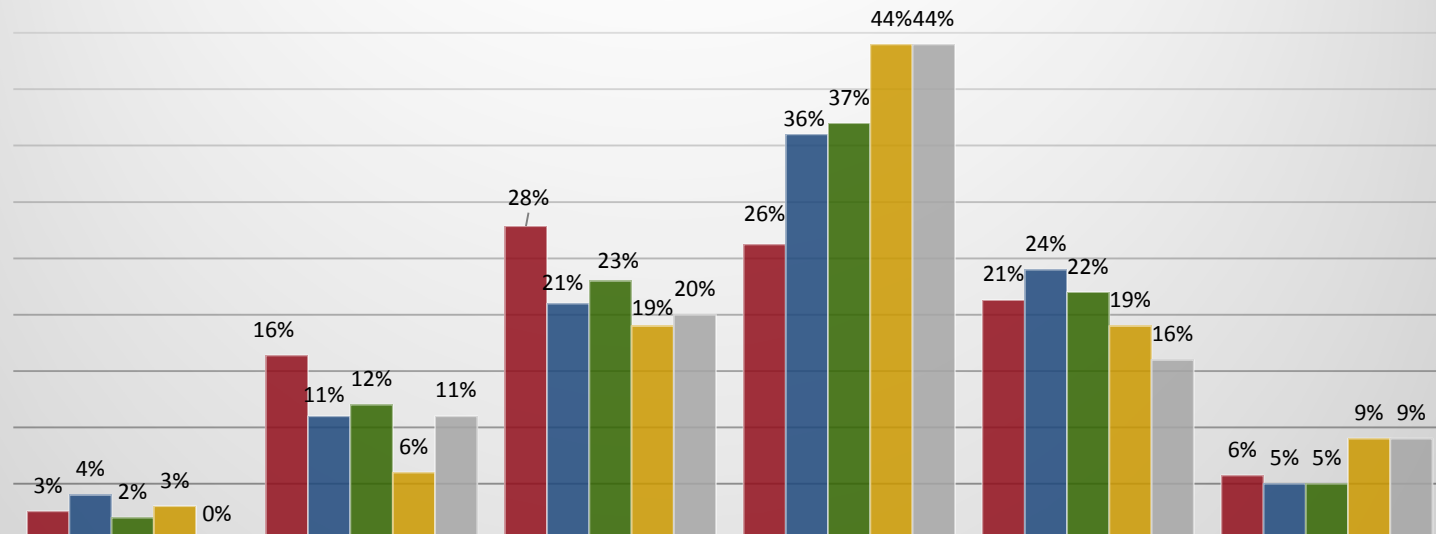
For your business, over the next 6 months, are you more concerned about the possibility of ...?

Inflation or Deflation?



Inflationary Risks and Costs

Inflationary Factor Representing the Most Significant Risk to your Business



	Food costs	Energy costs	Raw material costs	Labor costs	Interest rates	Other
2Q15	3%	16%	28%	26%	21%	6%
3Q15	4%	11%	21%	36%	24%	5%
4Q15	2%	12%	23%	37%	22%	5%
1Q16	3%	6%	19%	44%	19%	9%
2Q16	0%	11%	20%	44%	16%	9%

Key Performance Indicators

Key Performance Indicators

■ Outlooks for revenue and profits recover somewhat

- Expected revenue increase improves from 1.7% to 3.0%; expected profit increase also rebounds from 0.7% to 1.5%

■ Headcount plans also improve; salary and benefit costs and healthcare costs tick up

- Headcounts are now expected to increase by 1.1% over the next twelve months after falling to a projection of only 0.5% in Q1
- Expected salary and benefit costs increases also jumped four tenths to 1.8%
- Anticipated healthcare costs increases also ticked up three tenths to 5.7% in Q2
- The expected increase in “other input prices” returned to the 2.1% level seen in Q4, 2015; fortunately, the expected ability to increase “prices charged” also rebounded to 1.3% in Q2, after falling off to only 0.8% in Q1

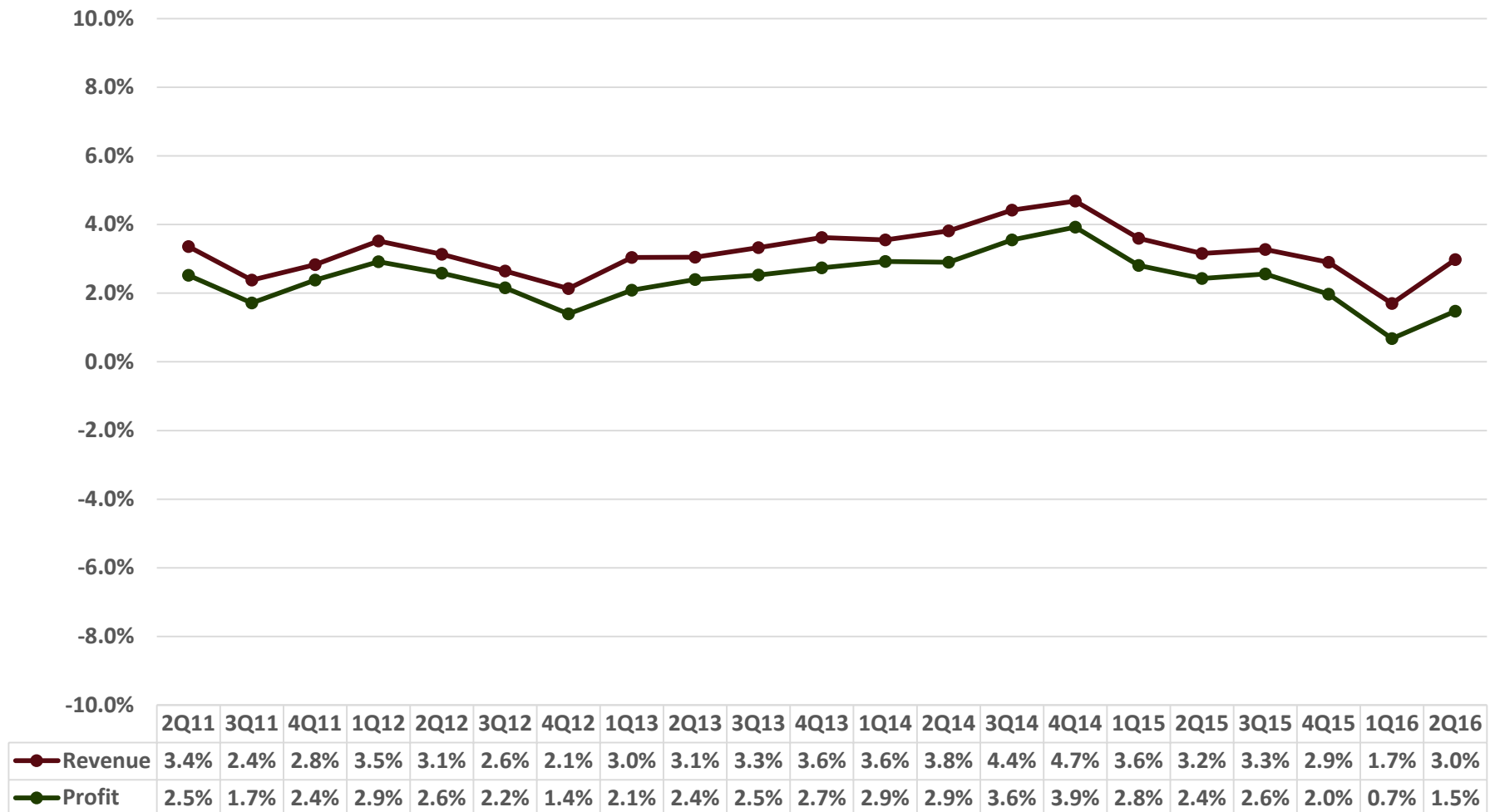
■ Key spending plans also recover

- Increased spending for IT continues to be the strongest category, and recovered to 2.6% in Q2 after falling off to 2.3% in Q1
- Other capital spending plans also rebounded from 1.5% in Q1 to 2.1% in Q2
- Expected increase in training spending also improved slightly to 1.3% after falling to only 1.1% in Q1
- Plans for marketing spending remained constant at 1.4%; R&D spending gained two tenths, increasing from 0.9% in Q1 to 1.1% in Q2

Key Performance Indicators

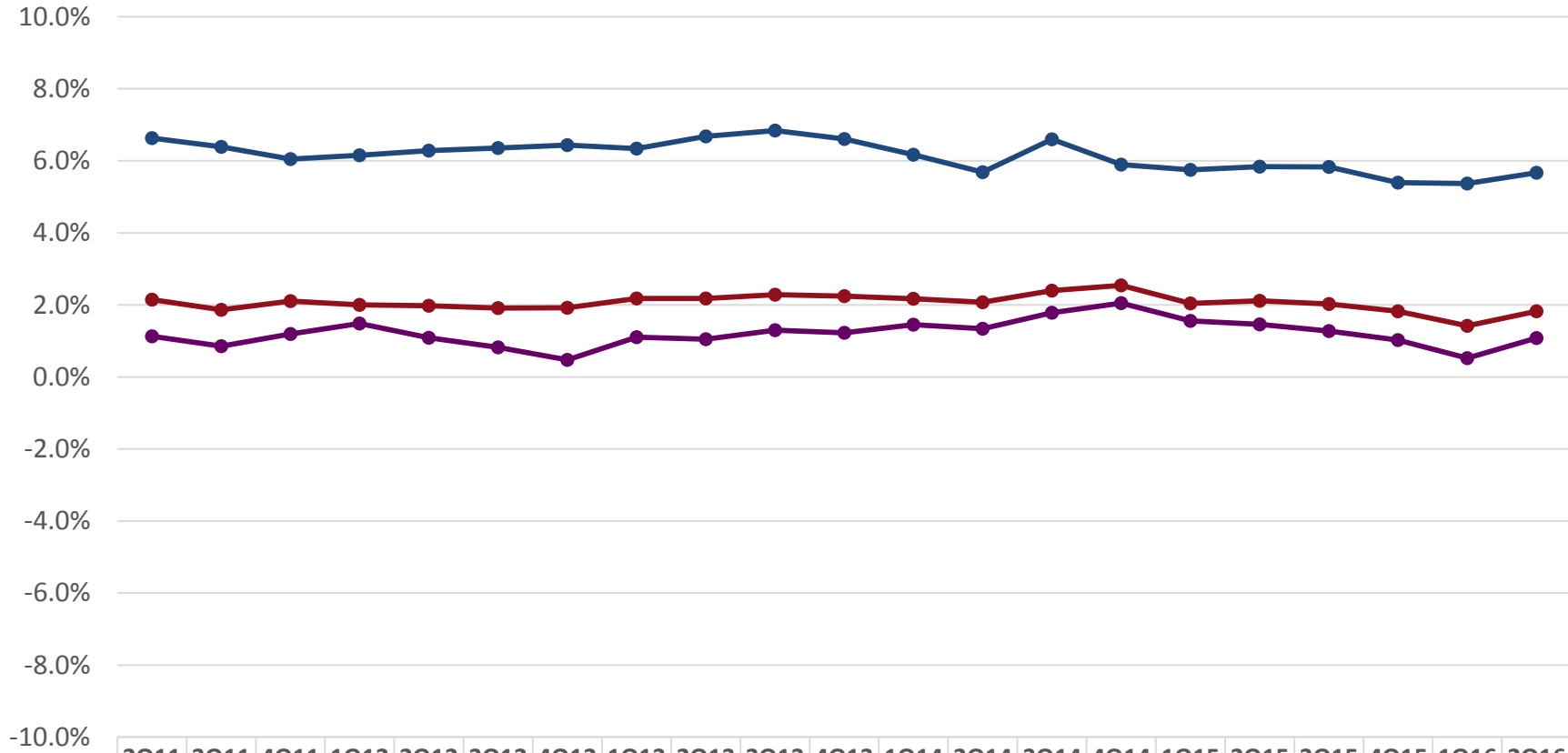
Expected Growth in Revenue and Profits

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 ...

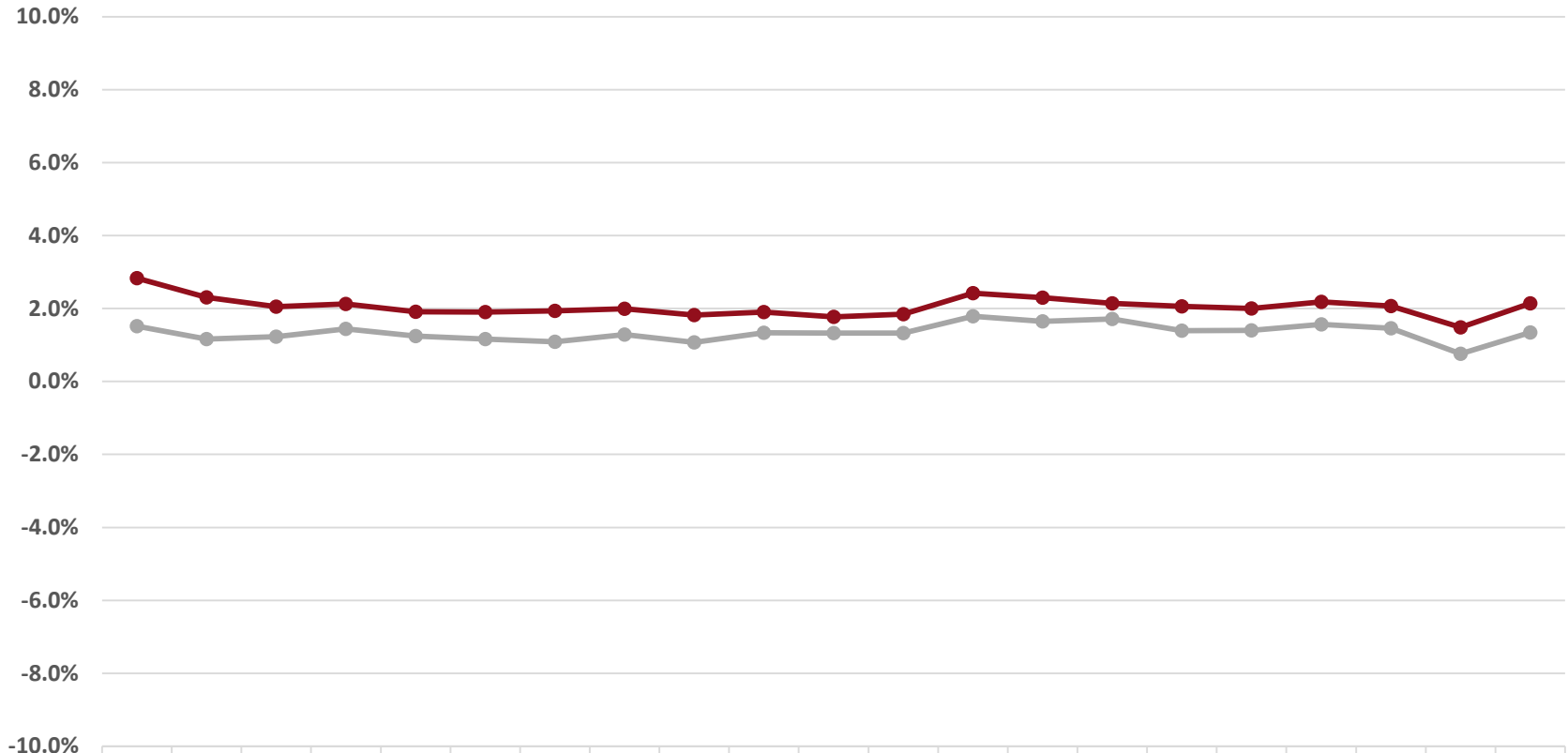


	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
Employees	1.1%	0.9%	1.2%	1.5%	1.1%	0.8%	0.5%	1.1%	1.0%	1.3%	1.2%	1.5%	1.3%	1.8%	2.1%	1.6%	1.5%	1.3%	1.0%	0.5%	1.1%
Salary & Benefits	2.2%	1.9%	2.1%	2.0%	2.0%	1.9%	1.9%	2.2%	2.2%	2.3%	2.2%	2.2%	2.1%	2.4%	2.5%	2.0%	2.1%	2.0%	1.8%	1.4%	1.8%
Healthcare	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%	6.6%	5.9%	5.8%	5.8%	5.8%	5.4%	5.4%	5.7%

Pricing & Other Costs

Average Change Expected

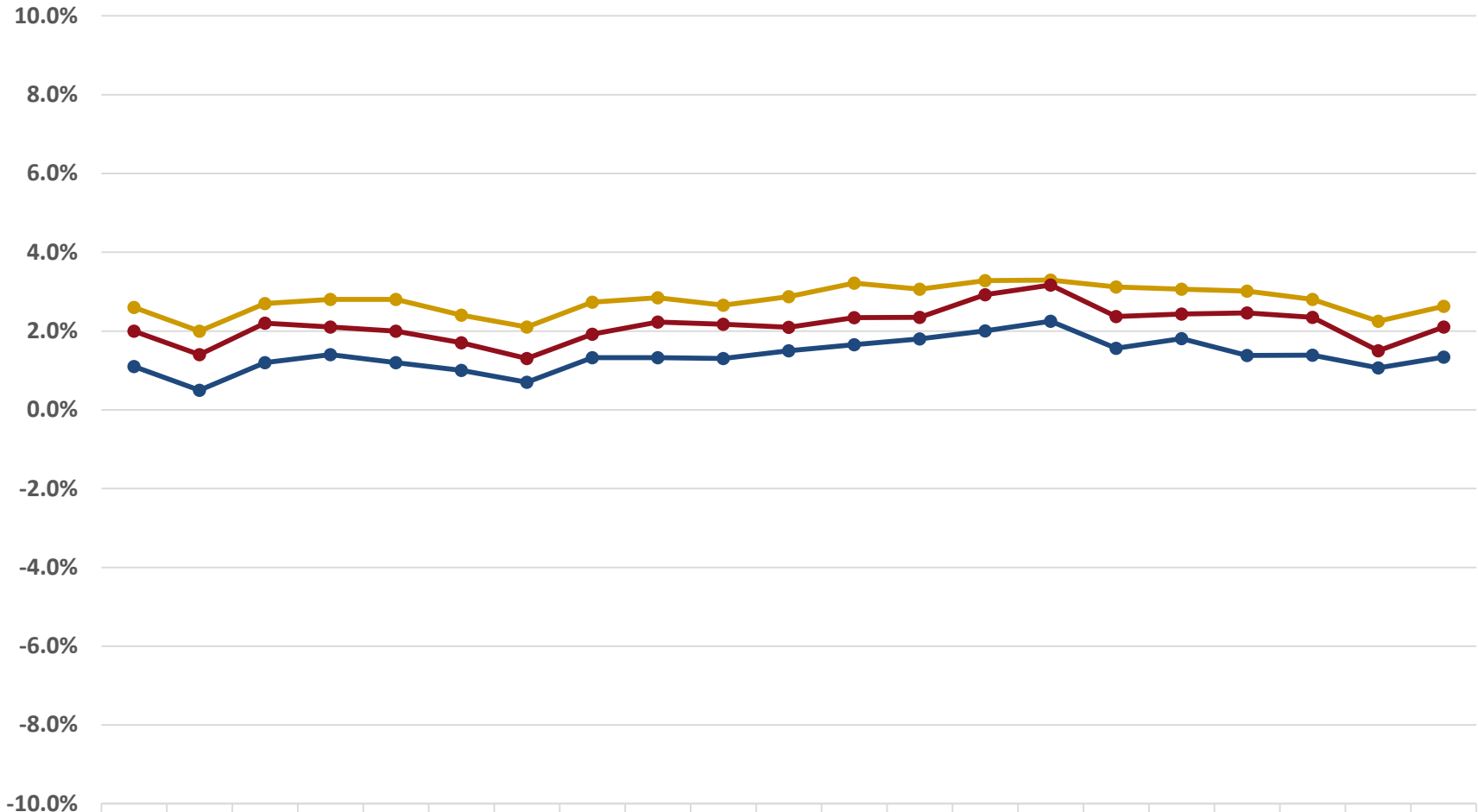
Thinking about the coming 12 months, please comment on the probable change for your organization ...



—●— Prices Charged	1.5%	1.2%	1.2%	1.4%	1.2%	1.2%	1.1%	1.3%	1.1%	1.3%	1.3%	1.3%	1.8%	1.7%	1.7%	1.4%	1.4%	1.6%	1.5%	0.8%	1.3%
—●— Input Prices	2.8%	2.3%	2.1%	2.1%	1.9%	1.9%	1.9%	2.0%	1.8%	1.9%	1.8%	1.8%	2.4%	2.3%	2.1%	2.1%	2.0%	2.2%	2.1%	1.5%	2.1%

Spending Plans IT, Other Capital & Training

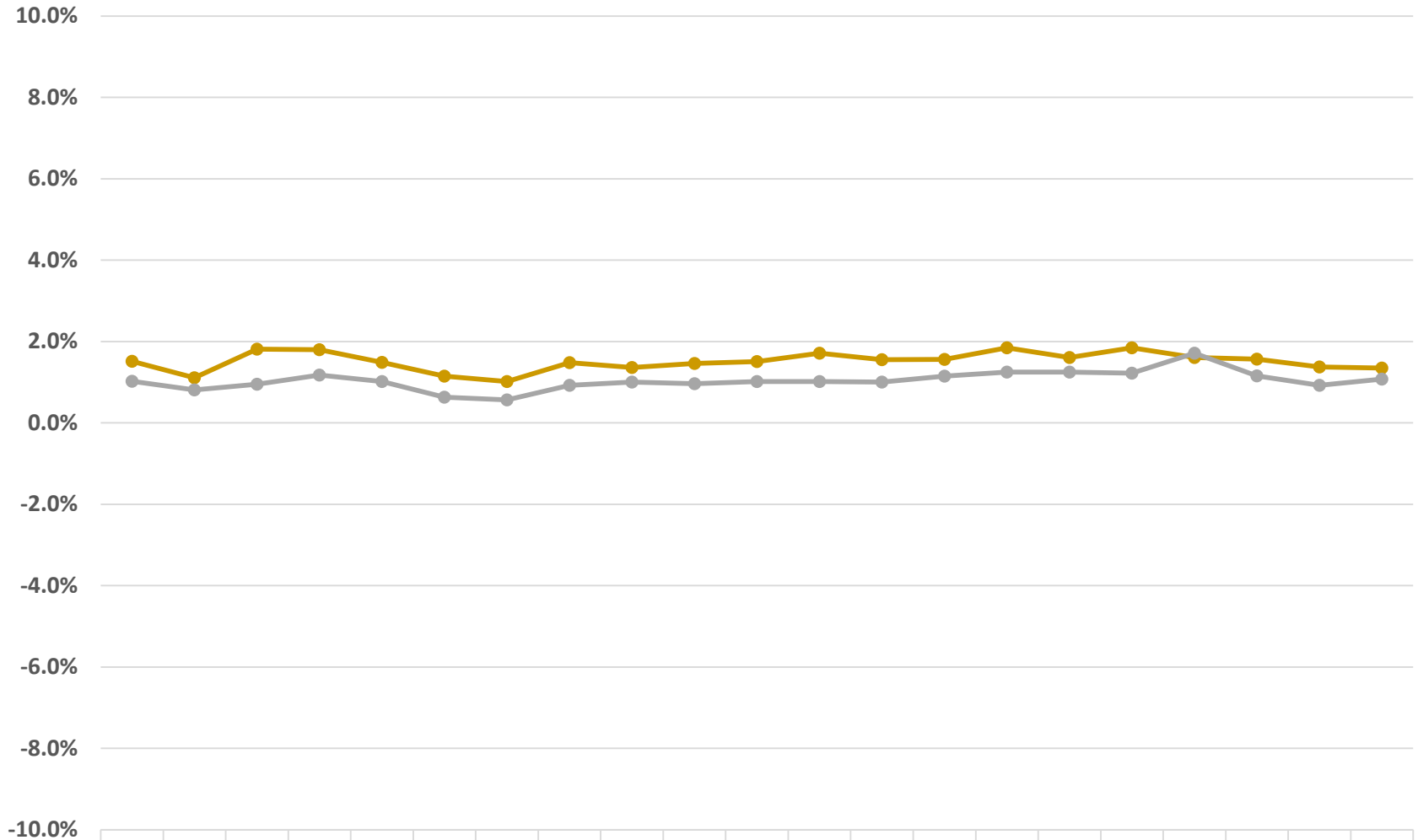
Thinking about the coming 12 months, please comment on the probable change for your organization for ...



	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
IT	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%	3.3%	3.3%	3.1%	3.1%	3.0%	2.8%	2.3%	2.6%
Other Capital	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%	2.9%	3.2%	2.4%	2.4%	2.5%	2.4%	1.5%	2.1%
Training	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%	2.0%	2.2%	1.6%	1.8%	1.4%	1.4%	1.1%	1.3%

Spending Plans Marketing & R&D

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



	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
Marketing	1.5%	1.1%	1.8%	1.8%	1.5%	1.1%	1.0%	1.5%	1.4%	1.5%	1.5%	1.7%	1.6%	1.6%	1.8%	1.6%	1.8%	1.6%	1.6%	1.4%	1.4%
R&D	1.0%	0.8%	0.9%	1.2%	1.0%	0.6%	0.6%	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%	1.2%	1.3%	1.3%	1.2%	1.7%	1.2%	0.9%	1.1%

Hiring Plans

Hiring Plans

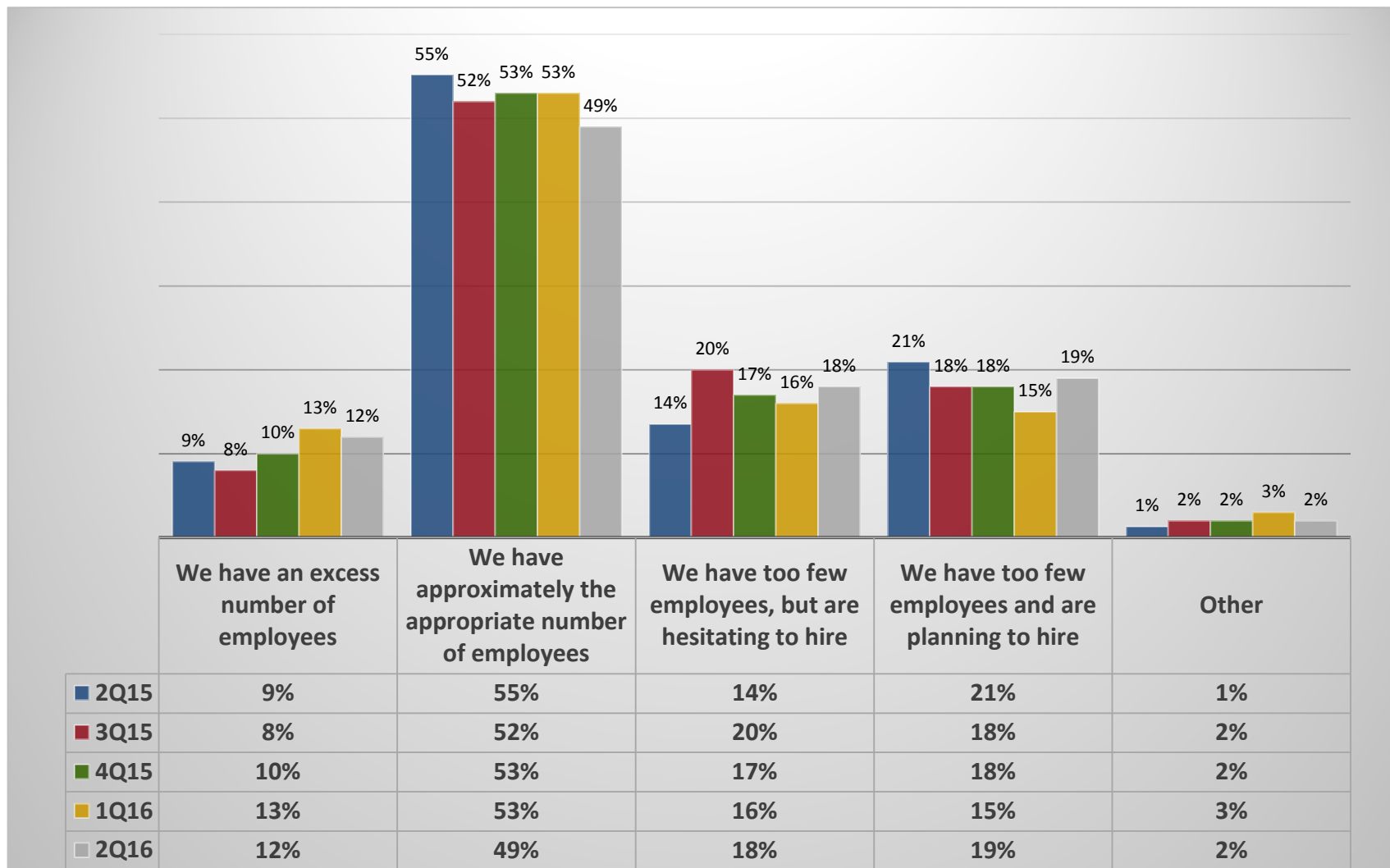
■ Improved optimism also having favorable impact on hiring

In Q2, 49% of all companies say they have the appropriate number of employees, down from the 52% - 55% range over the past year

- The number of companies now saying they have an excess number of employees eased a point from 13% to 12%
- More than a third (37%) now have too few employees;
 - The percentage of companies with too few employees who are reluctant to hire increased from 16% in Q1 to 18% in Q2, 2016
 - However, those with too few employees that are planning to hire increased from 15% to 19%

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)?



Top Challenges

Top Challenges Facing Organizations

- Regulatory requirements returned to the top of the list of challenges after being displaced by domestic economic conditions last quarter
- Domestic economic conditions, availability of skilled personnel, domestic competition and employee and benefit costs round out the top five
- Stagnant/declining markets fell from the third ranked challenge to number six, followed by domestic political leadership holding its spot at number seven
- Developing new products/services/markets maintained its hold on the eighth spot
- Staff turnover and financing/cost of capital both dropped out of the top ten list this quarter, being replaced by concern about liquidity at the number nine spot and energy cost concerns at ten

Top Challenges for Organizations

Please indicate the top three challenges for your organization

	2Q 15	3Q 15	4Q 15	1Q16	2Q16
1	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes	Domestic economic conditions	Regulatory requirements/changes
2	Employee and benefits costs	Employee and benefits costs	Domestic economic conditions	Regulatory requirements/changes	Domestic economic conditions
3	Domestic economic conditions	Availability of skilled personnel	Domestic competition	Stagnant/declining markets	Availability of skilled personnel
4	Availability of skilled personnel	Domestic economic conditions	Availability of skilled personnel	Domestic competition	Domestic competition
5	Domestic competition	Domestic competition	Stagnant/declining markets	Availability of skilled personnel	Employee and benefits costs
6	Developing new products/services/markets	Stagnant/declining markets	Employee and benefits costs	Employee and benefits costs	Stagnant/declining markets
7	Domestic political leadership	Developing new products/services/markets	Global economic conditions	Domestic political leadership	Domestic political leadership
8	Developing new products/services/markets	Materials/supplies/equipment costs	Changing customer preferences	Developing new products/services/markets	Developing new products/services/markets
9	Staff Turnover	Financing (access/cost of capital)	Domestic political leadership	Staff Turnover	Liquidity
10	Financing (access/cost of capital)	Changing customer preferences	Global economic conditions	Financing (access/cost of capital)	Energy costs

Outlook by *Industry, Region and Business Size*

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

- **Optimism improves in most sectors; remains constant in manufacturing and construction**
 - **Retail trade** continued its rebound from Q4, 2015, now having 50% of respondents being optimistic. However, retail hiring continues to be soft, easing from 1.2% in Q1 to only 0.9% in Q2. **Wholesale trade** optimism also recovered further to 50% in Q2.
 - **Manufacturing** remained constant at 48% optimistic; hiring also constant, improving only a tenth to a 1.2% expected increase for the coming twelve months
 - **Construction** optimism also remained consistent with Q1 at 59%. However, the expected increase in construction headcount improved to 1.4% in Q2, up from 1.1% in Q1. **Real Estate** optimism also improved in Q2 to 58%
 - **Professional Services** rebounded significantly from only 46% optimistic at Q1 to 70% in Q2. Hiring in the professional services sector also rebounded to the top of the chart with expectations for a 3.0% increase in the coming year.
 - **Technology** optimism and hiring also recovered; 61% of technology respondents are now optimistic and technology hiring improved from an expected increase of only 1.4% in Q1 to 2.3%
 - **Finance and Insurance** also improved to 58% optimistic, up from only 41% optimistic at Q1

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

■ Other Sectors

- **Healthcare providers** continued to rebound with 69% optimistic in Q2, up from 52% in Q1, after falling sharply to only 38% optimistic in Q4, 2015
- **Healthcare-other** eased slightly from 67% in Q1 to 63% optimistic in Q2

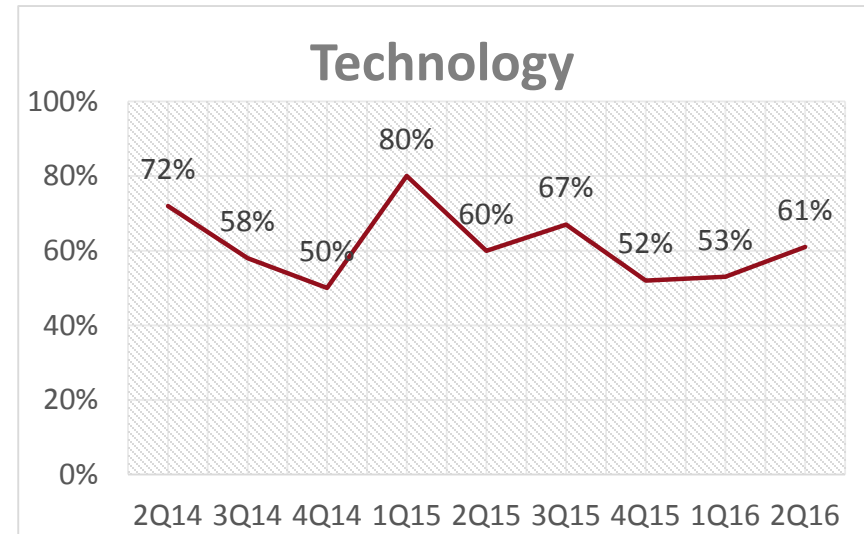
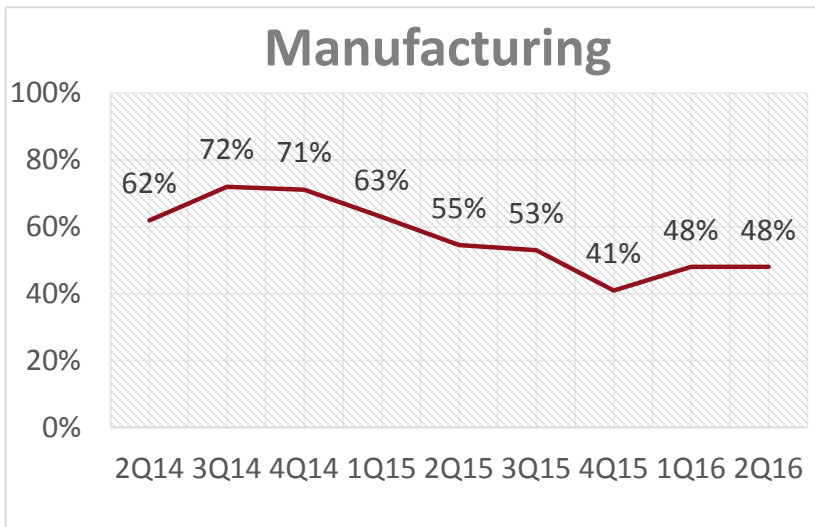
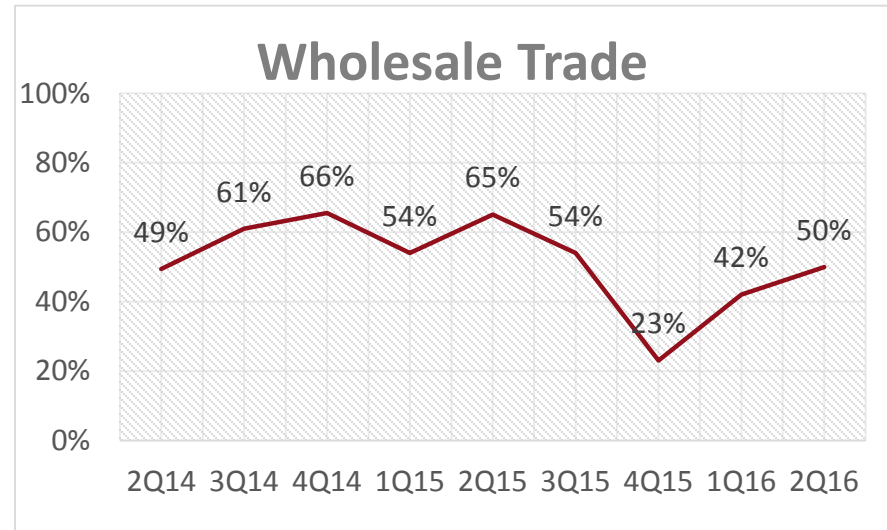
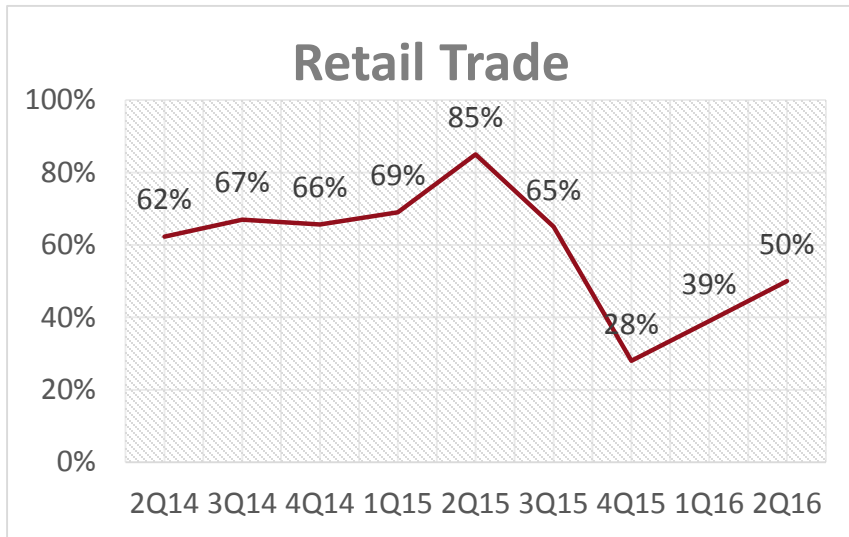
■ Optimism recovers in Midwest and South

- The Midwest regained its claim as the most optimistic region at 62%, up from only 45% in Q1
- The South rebounded from only 38% optimistic in Q1 to 53% in Q2
- The Northeast also recovered slightly from 48% in Q1 to 53% in Q2
- The West eased a point from 55% in Q1 to 54% in Q2

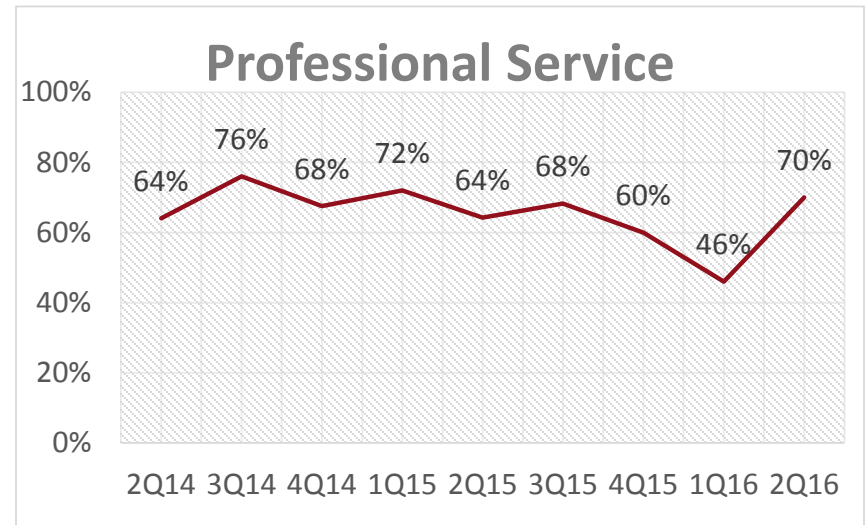
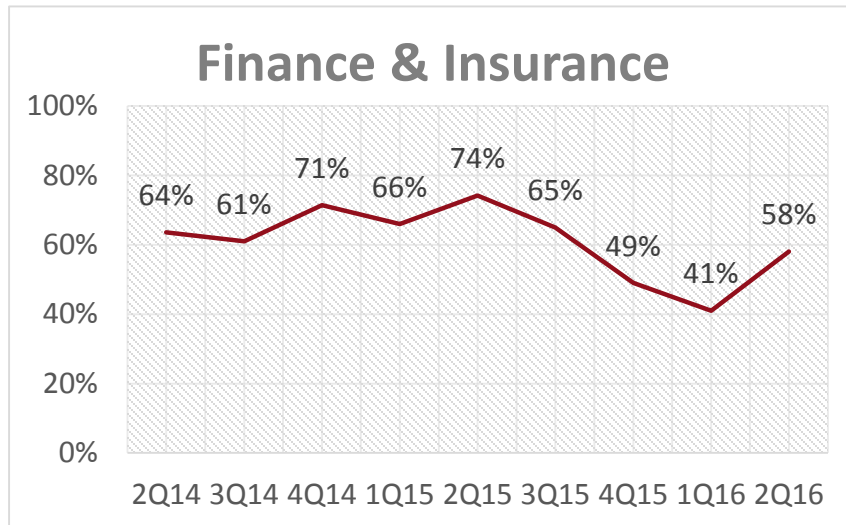
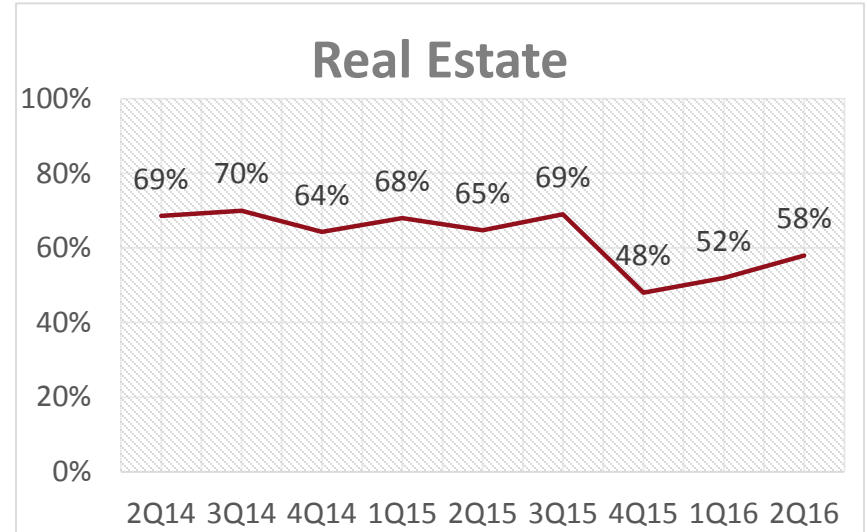
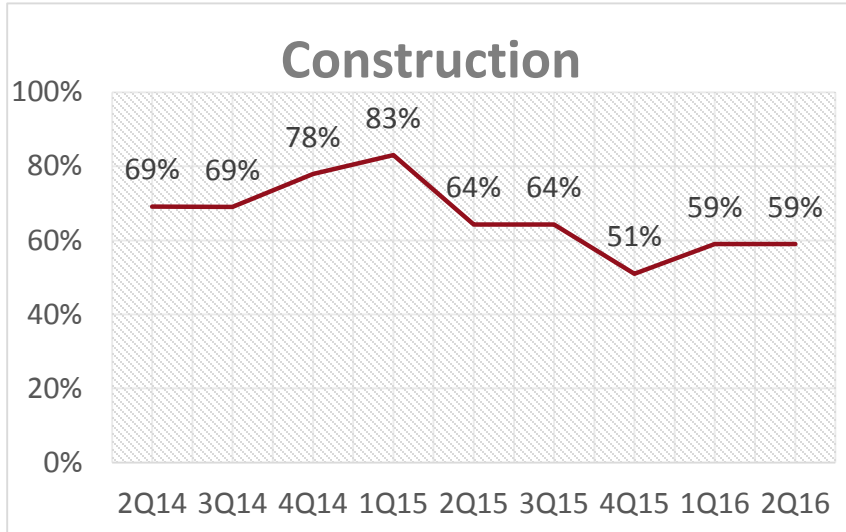
■ Expansion plans improve

- The number of companies with revenues < \$10 million having expansion plans improved from 44% in Q1 to 55% in Q2
- The \$10-\$100 million range of companies improved from 59% to 61%
- The \$100 billion to \$1 billion range of companies recovered from 50% in Q1 to 61% in Q2
- The percentage of companies with revenues > \$1 billion having expansion plans increased only slightly in Q2 to 50%, after falling off from 59% in Q4, 2015 to 49% in Q1, 2016

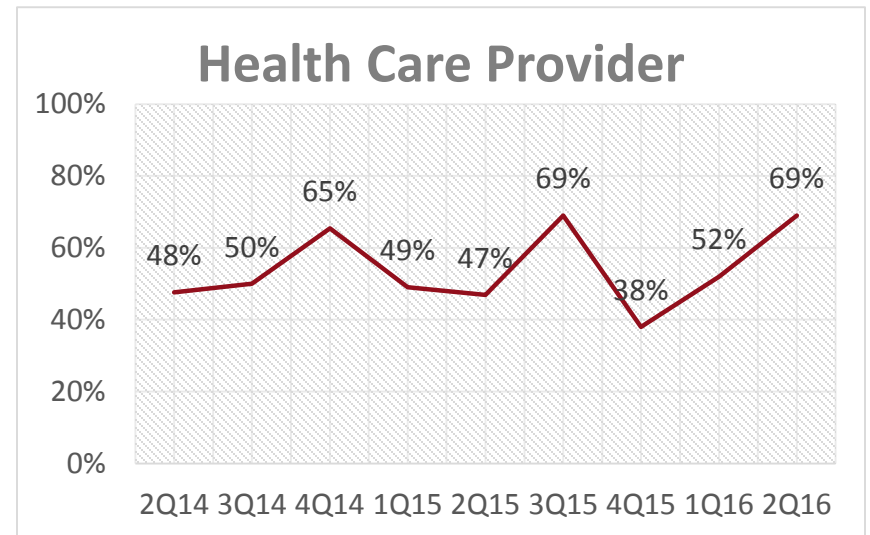
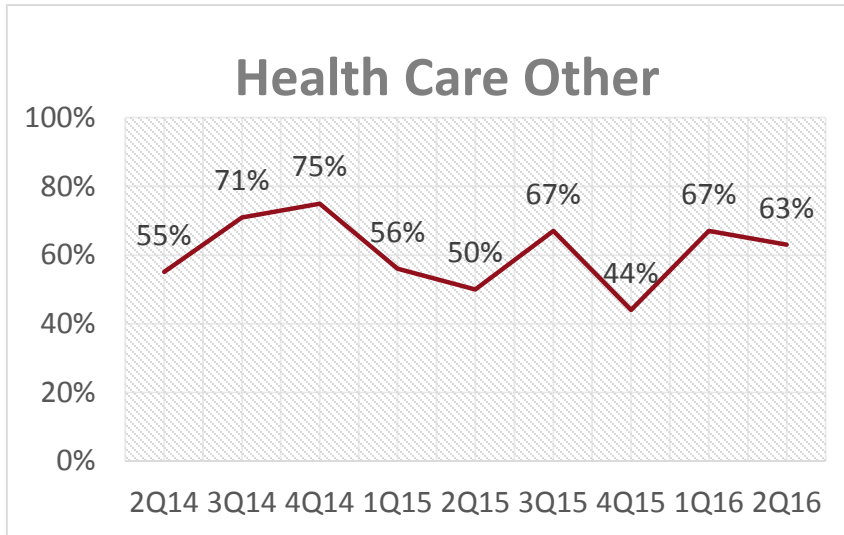
Organization Optimism by Industry



Organization Optimism by Industry



Organization Optimism by Industry



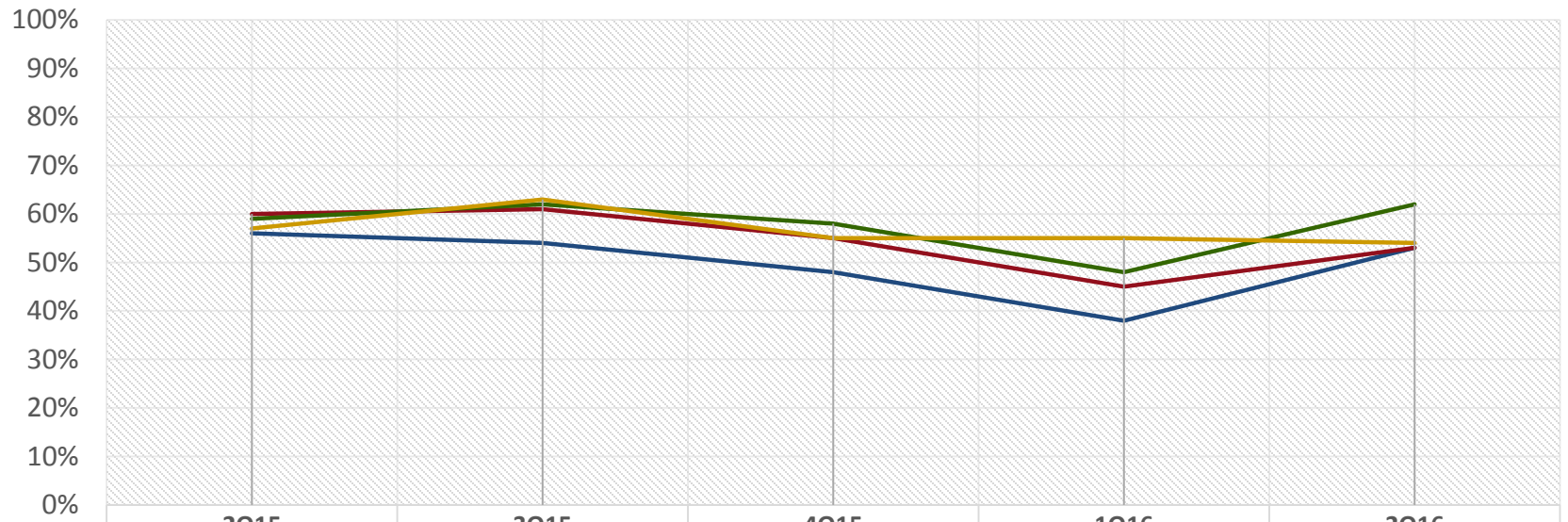
Expected Employment Change by Industry

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



Organization Optimism by Region

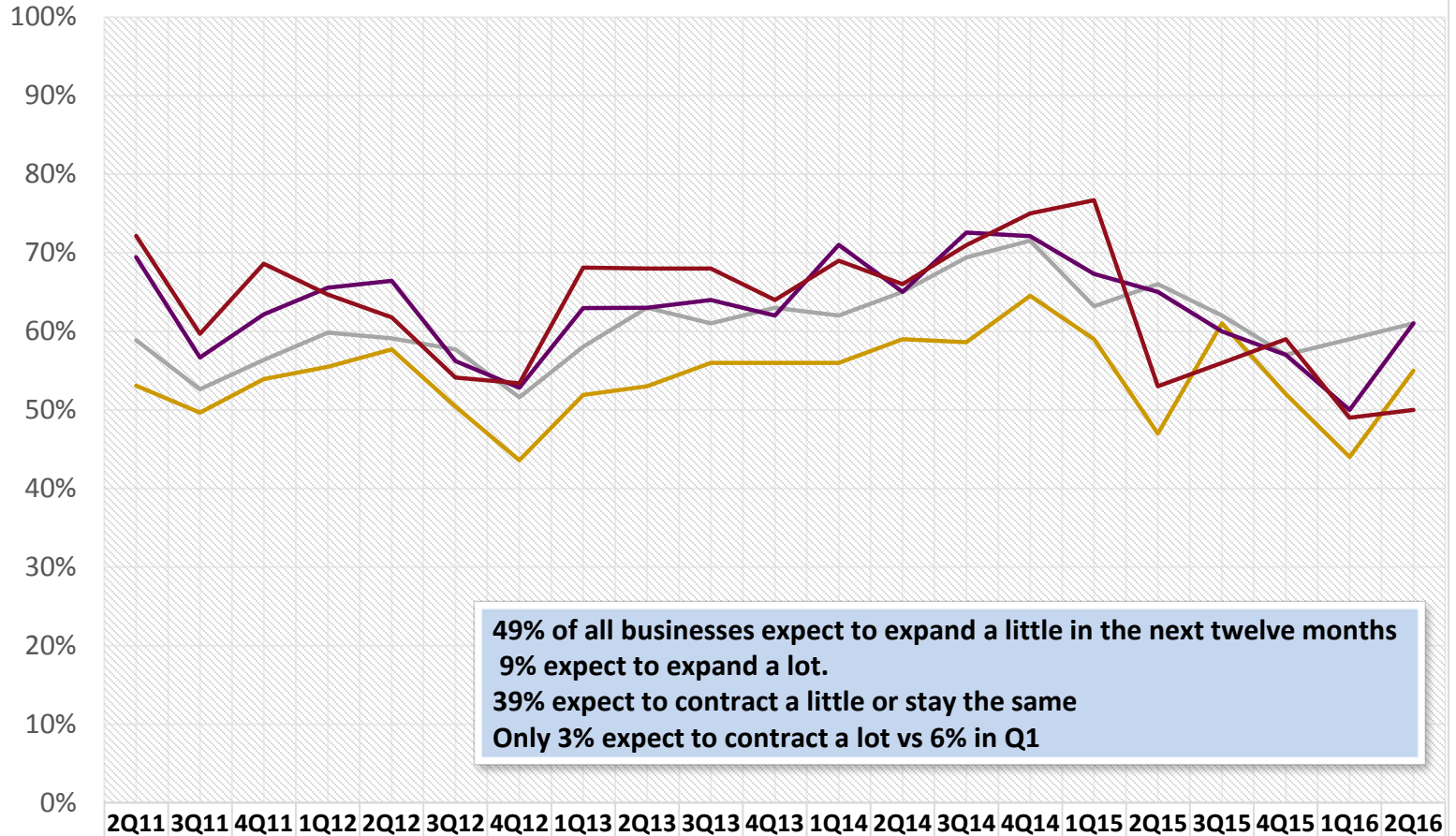
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months.



	2Q15	3Q15	4Q15	1Q16	2Q16
— South	56%	54%	48%	38%	53%
— Midwest	60%	61%	55%	45%	53%
— Northeast	59%	62%	58%	48%	62%
— West	57%	63%	55%	55%	54%

Expansion Plans by Business Size

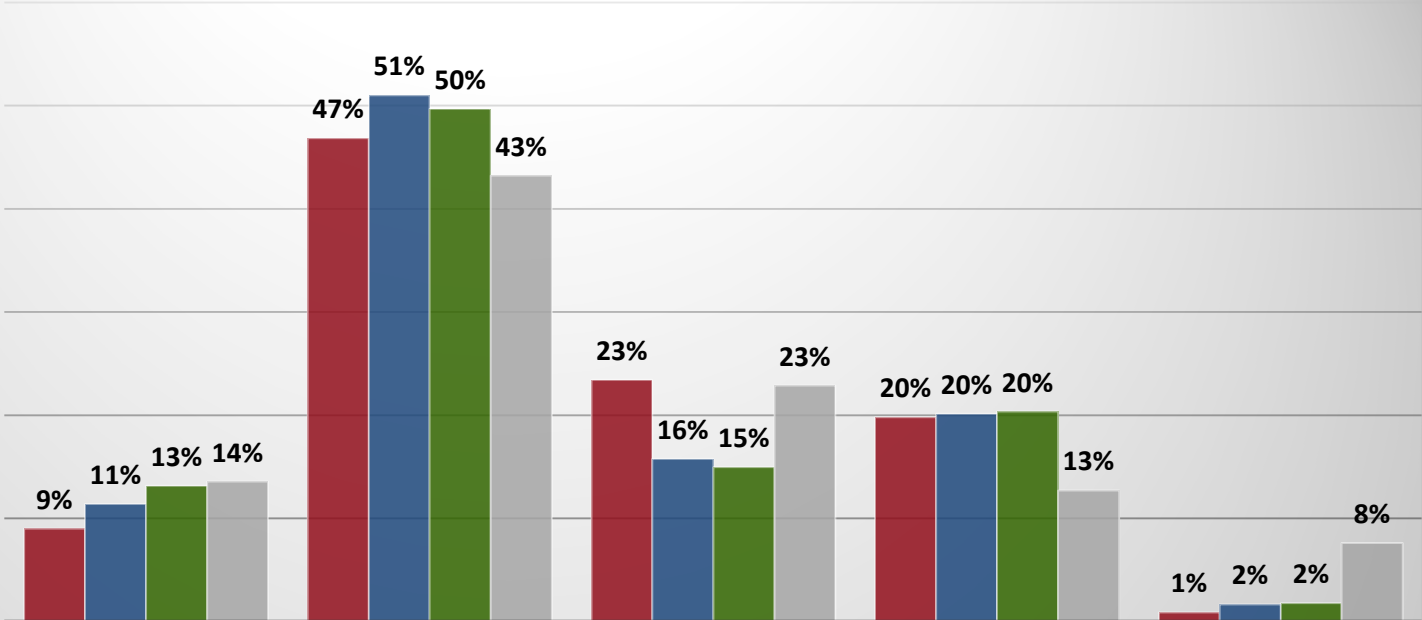
Please indicate whether you expect your business to expand or contract over the next 12 months



	2Q11	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16
— < \$10 million	53%	50%	54%	55%	58%	50%	44%	52%	53%	56%	56%	56%	59%	59%	65%	59%	47%	61%	52%	44%	55%
— \$10 to < \$100 million	59%	53%	56%	60%	59%	58%	52%	58%	63%	61%	63%	62%	65%	69%	72%	63%	66%	62%	57%	59%	61%
— \$100 million to < \$1 billion	69%	57%	62%	66%	66%	56%	53%	63%	63%	64%	62%	71%	65%	73%	72%	67%	65%	60%	57%	50%	61%
— > \$1 billion	72%	60%	69%	65%	62%	54%	53%	68%	68%	68%	64%	69%	66%	71%	75%	77%	53%	56%	59%	49%	50%

Businesses in the \$100 to <\$1 billion range are most likely to have excess employees

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)?



Business Size	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	9%	47%	23%	20%	1%
\$10 to <\$100 million	11%	51%	16%	20%	2%
\$100 million to <\$1 billion	13%	50%	15%	20%	2%
> \$1 billion	14%	43%	23%	13%	8%

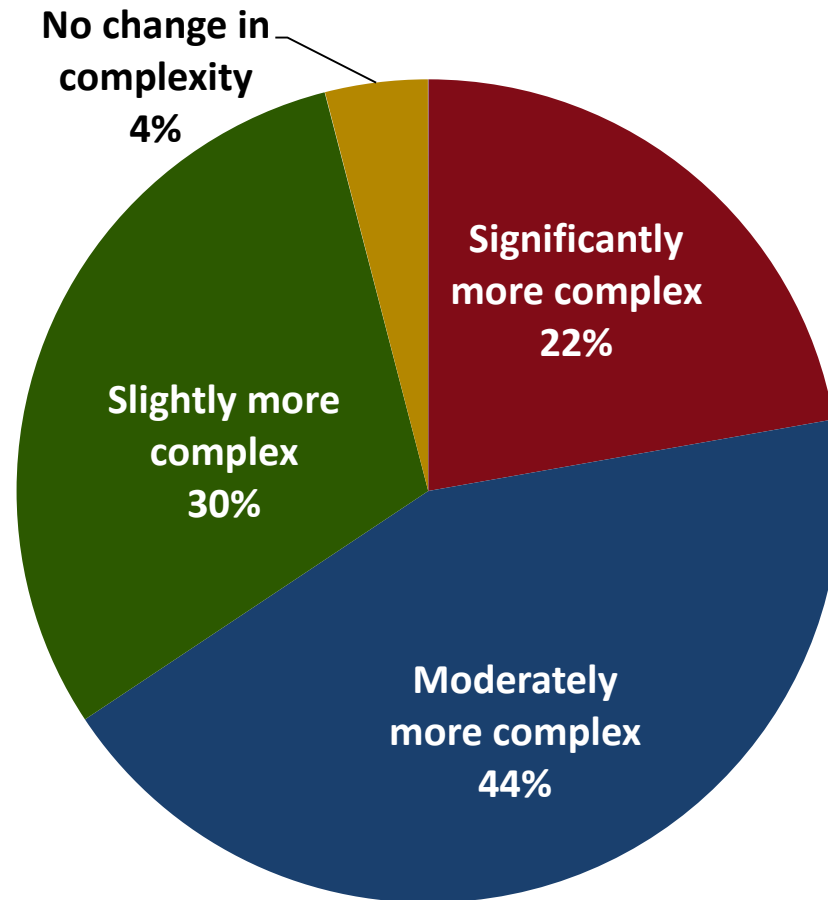


Economic Outlook Survey 2Q 2016 Survey Within a Survey

Business Complexity and Finance Competencies

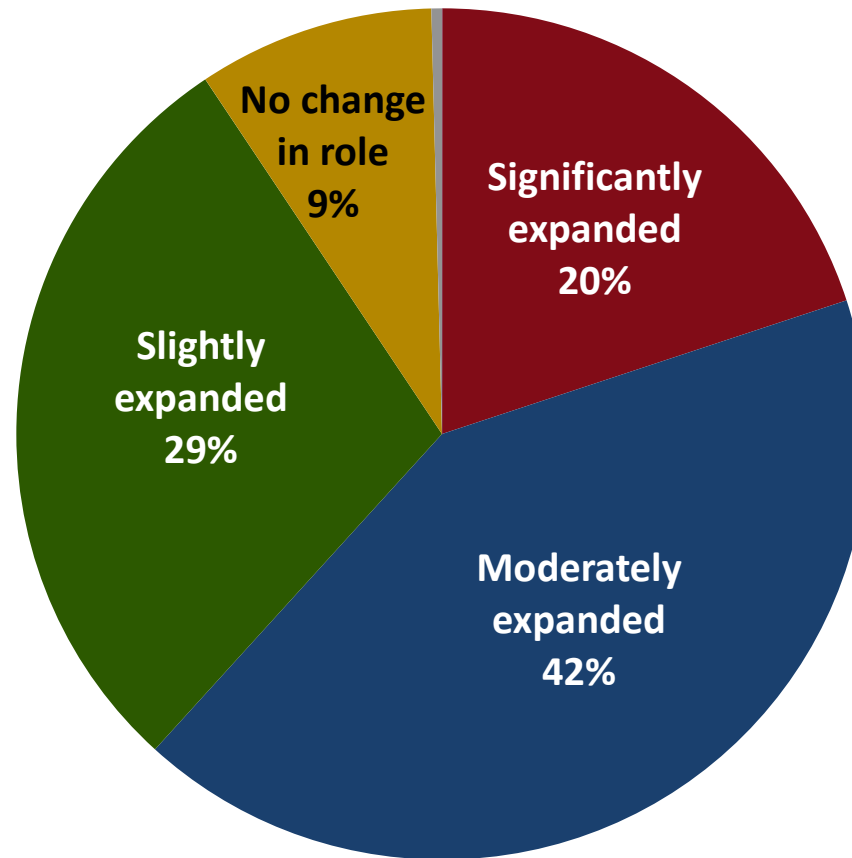
Increasing Complexity

Given the changing US and global economic and regulatory environment and looking ahead three years, how do you see the level of general business complexity changing?



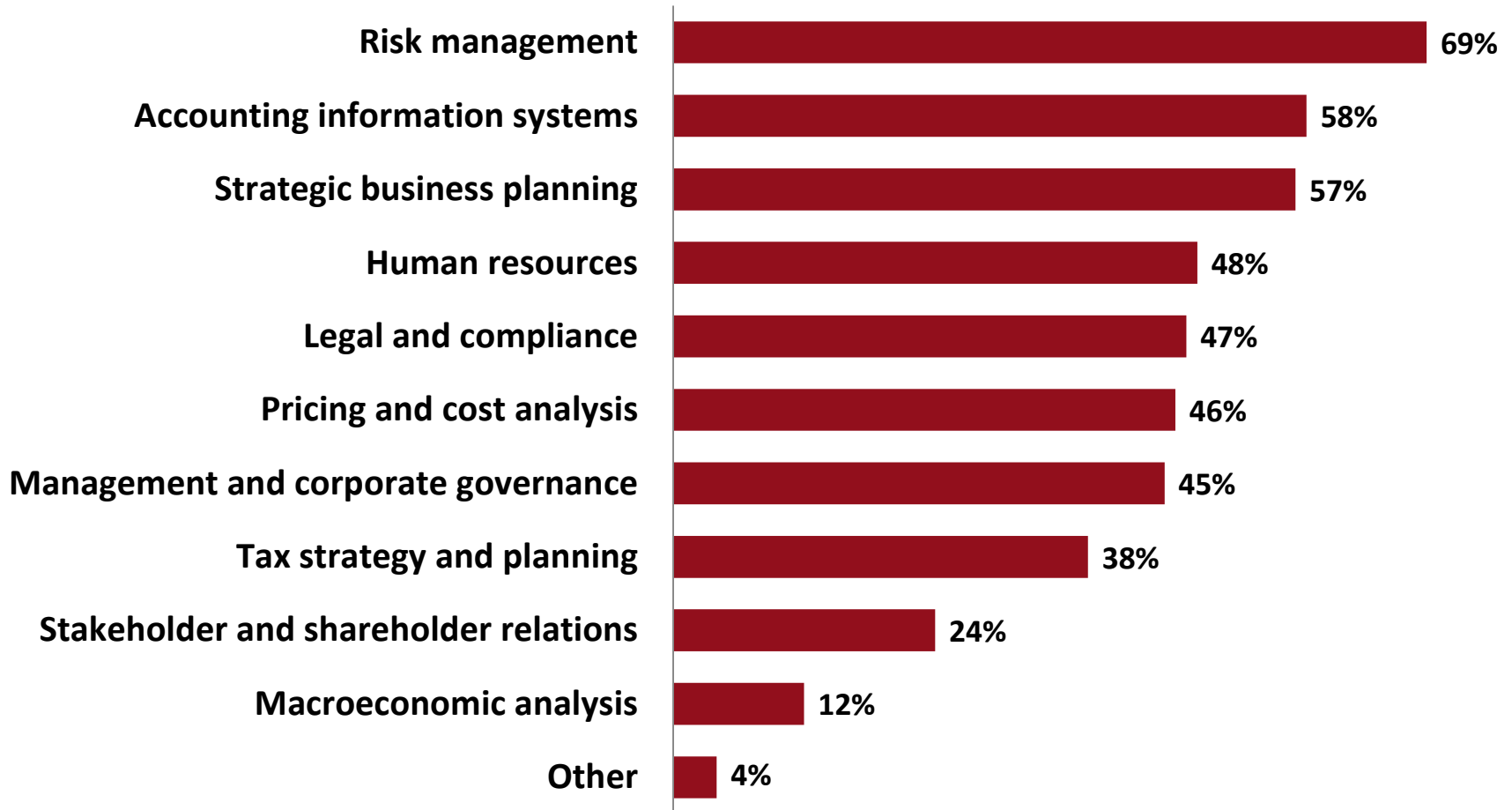
Impact of complexity on CFO role

The increasing complexity of the business environment has expanded the role of the CFO and many finance professionals at many companies. How would you characterize any change in the role of the CFO/finance function in your organization in the last 1-3 years?



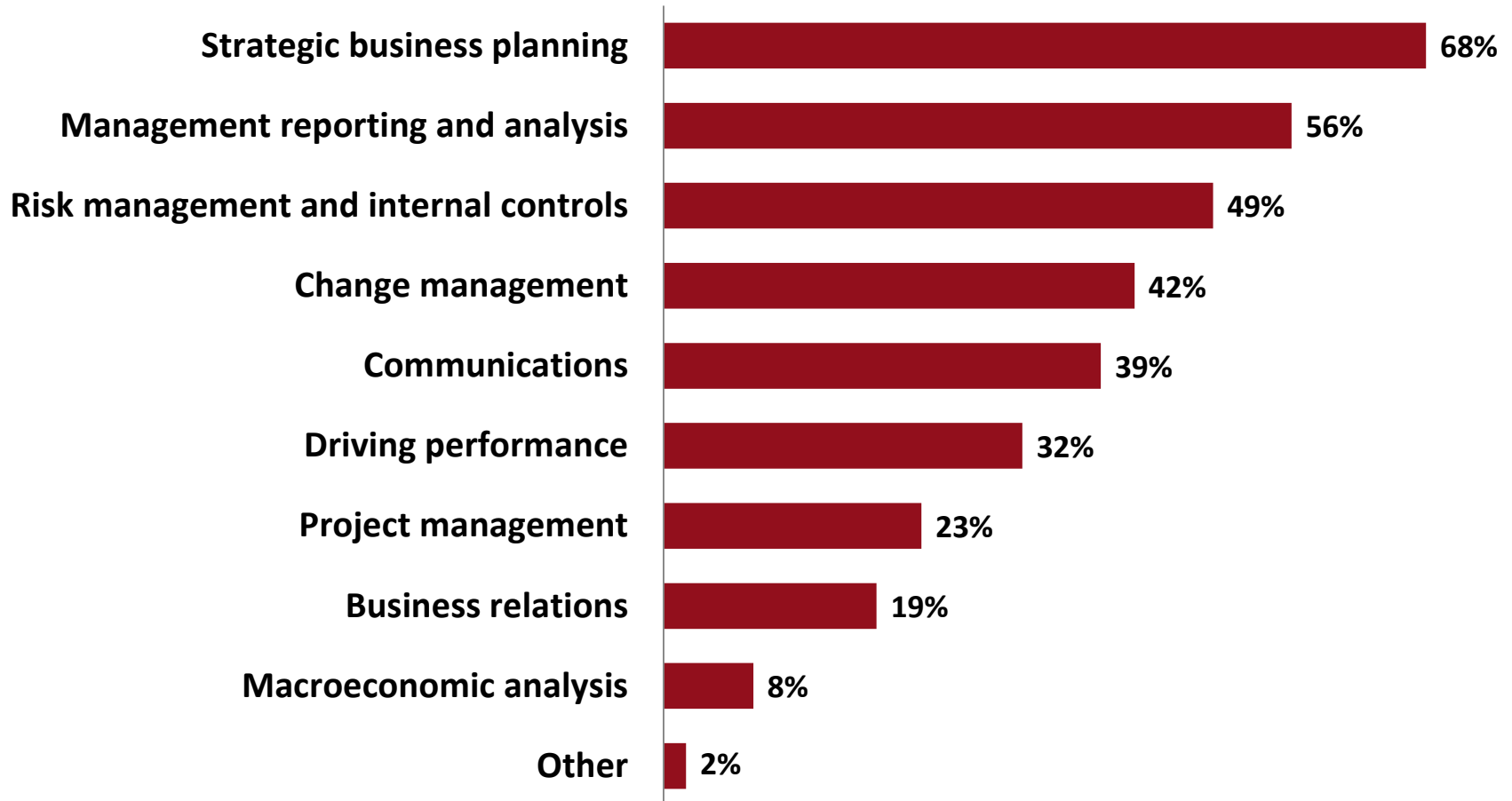
New areas of focus

In addition to traditional financial accounting and reporting, what areas have become your focus?
Choose as many as apply.



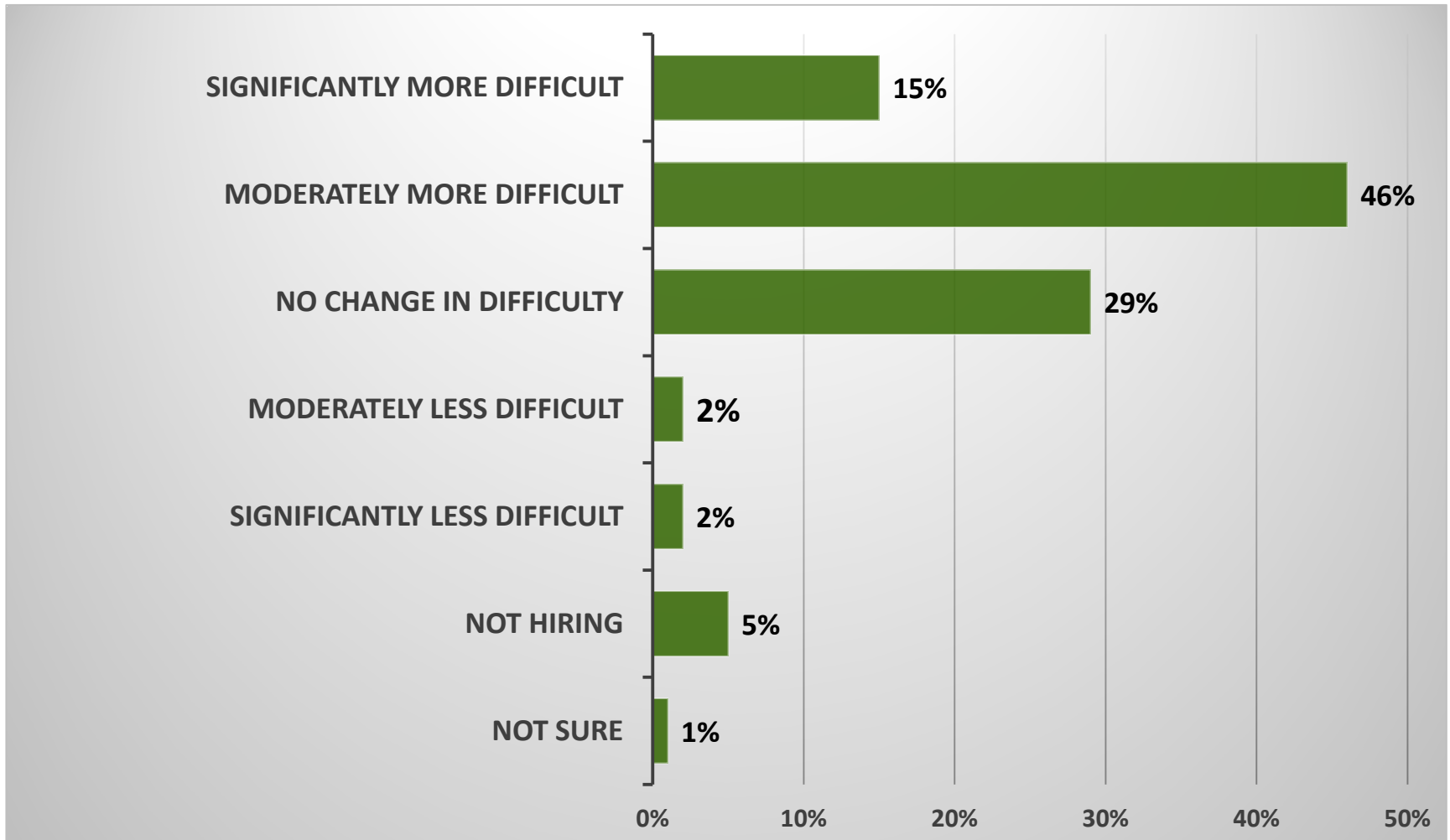
Essential CFO Skills

Which skills do you expect to be essential to effectively perform these roles in the next 1-3 years?



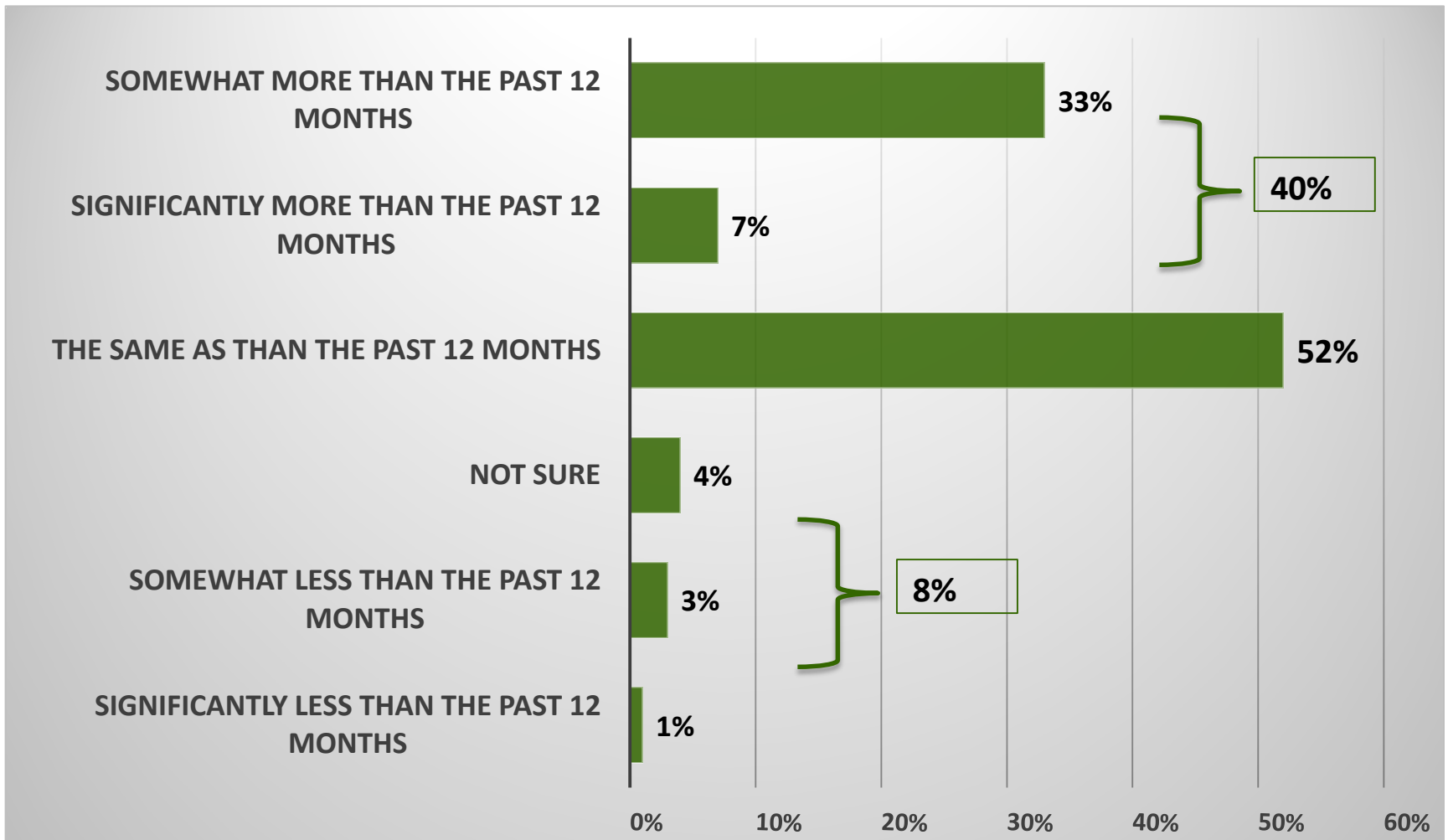
Employment Outlook – Talent Skills

As the unemployment rate has dropped to what some consider full employment, how difficult do you expect it will be to find the talent skills you need over the next 12 months to fill open positions?



New Hire Training

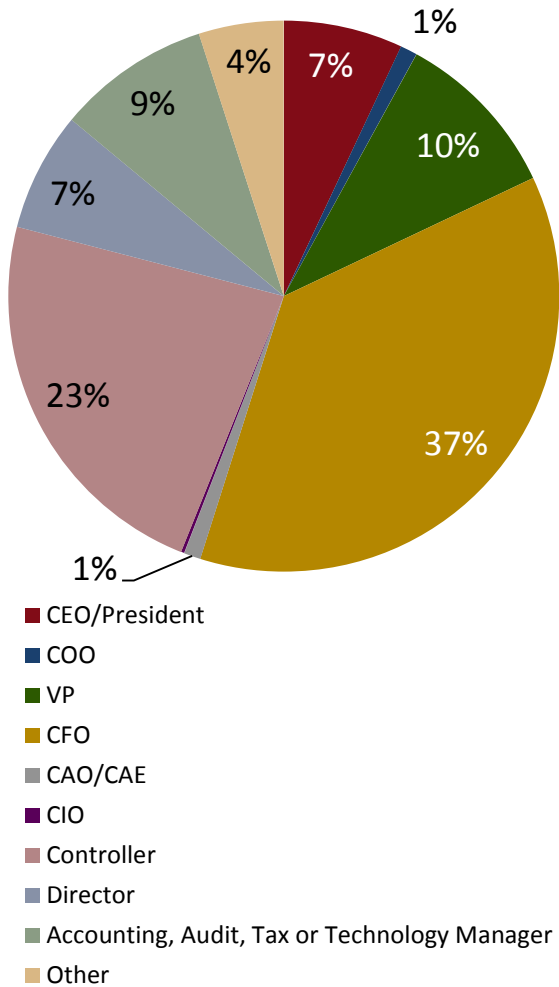
How would you characterize the amount of training you intend to provide to new hires over the next 12 months to ensure they have the necessary level of skills for your business to be successful?



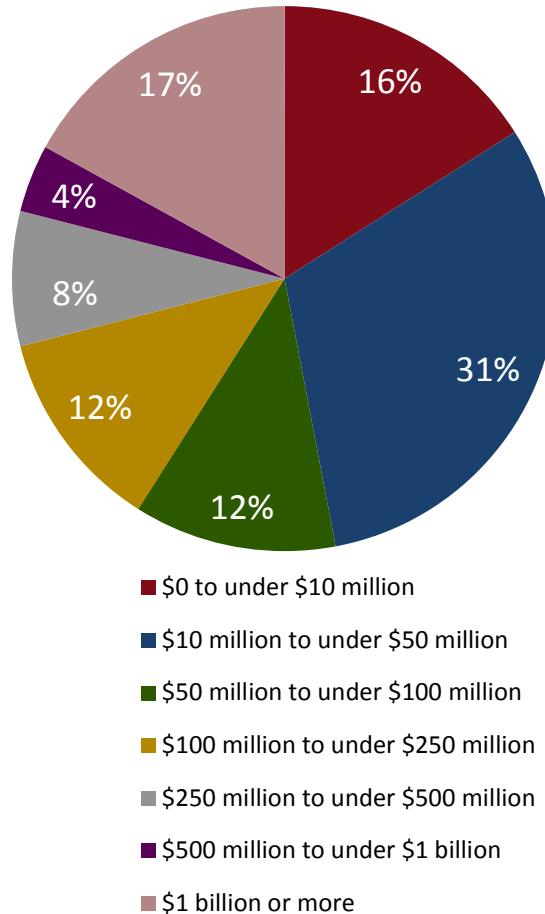
Demographics

Demographics

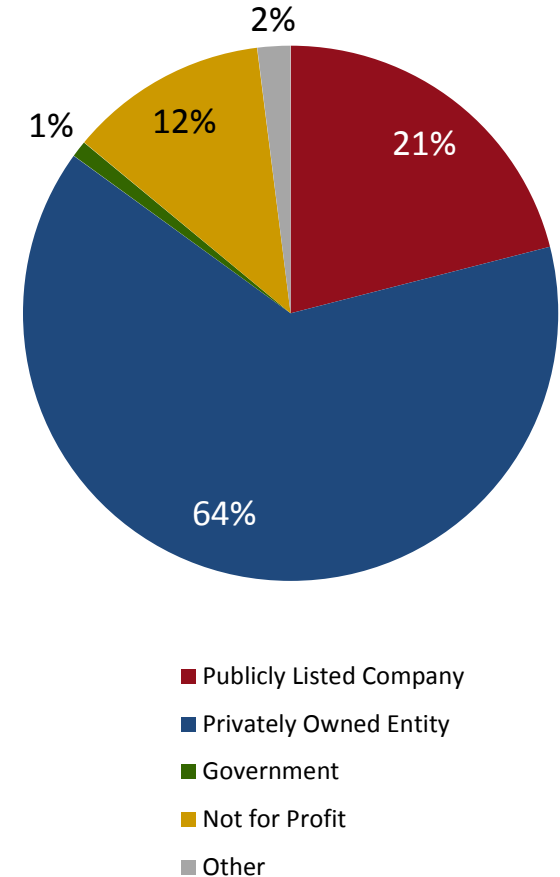
Position



Size of Organization



Type of Organization





AICPA Business and Industry Economic Outlook Survey 2Q 2016

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