Association of International Certified Professional Accountants®

AICPA Business & Industry Economic Outlook Survey 2Q 2017

The CPA Outlook Index

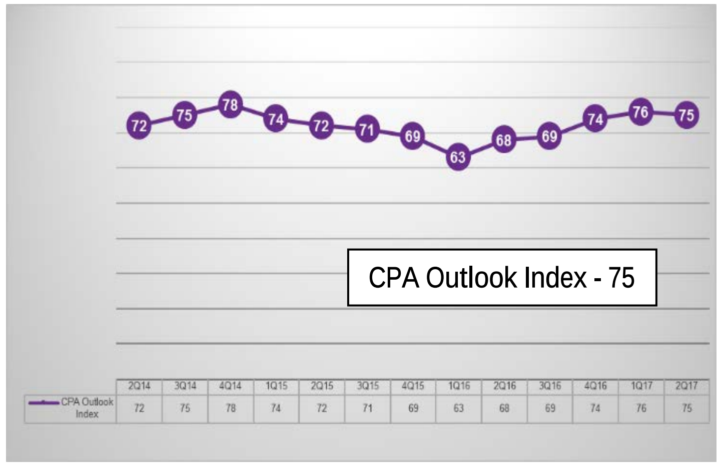
The CPA Outlook Index (CPAOI) is a broad-based indicator of the strength of U.S. business activity and economic direction that reflects the views of CPAs who are AICPA members in Business & Industry holding executive positions in both public and privately-owned organizations of all sizes, and across a broad spectrum of industries.

CPA Outlook Index

The CPA Outlook Index (CPAOI) decreased 1 point in the first quarter of 2017.

The index component for optimism about the U.S. Economy eased 2 points in the second quarter after increasing 32 points from the first quarter of 2016 to the first quarter of 2017.

Organization optimism and related expasion, revenue and profit indicators also showed slight declines. However, these slight declines were largely offset by slight increases in employment and spending indicators.



Component	2Q16	3Q16	4Q16	1Q17	2Q17	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	59	58	76	79	77	↓02	↑18
Organization Optimism	68	68	74	77	76	↓01	↑8
Expansion Plans	69	72	74	77	76	↓01	↑7
Revenue	74	75	78	81	79	↓02	↑5
Profits	63	69	74	74	72	↓02	↑11
Employment	63	66	68	71	72	↑01	↑9
IT Spending	76	75	77	78	80	↑02	↑04
Other Capital Spending	70	71	73	71	72	↑01	↑02
Training & Development	67	70	71	73	73	→00	↑06
Total CPAOI	68	69	74	76	75	↓01	↑07

The CPA Outlook Index

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.

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%].

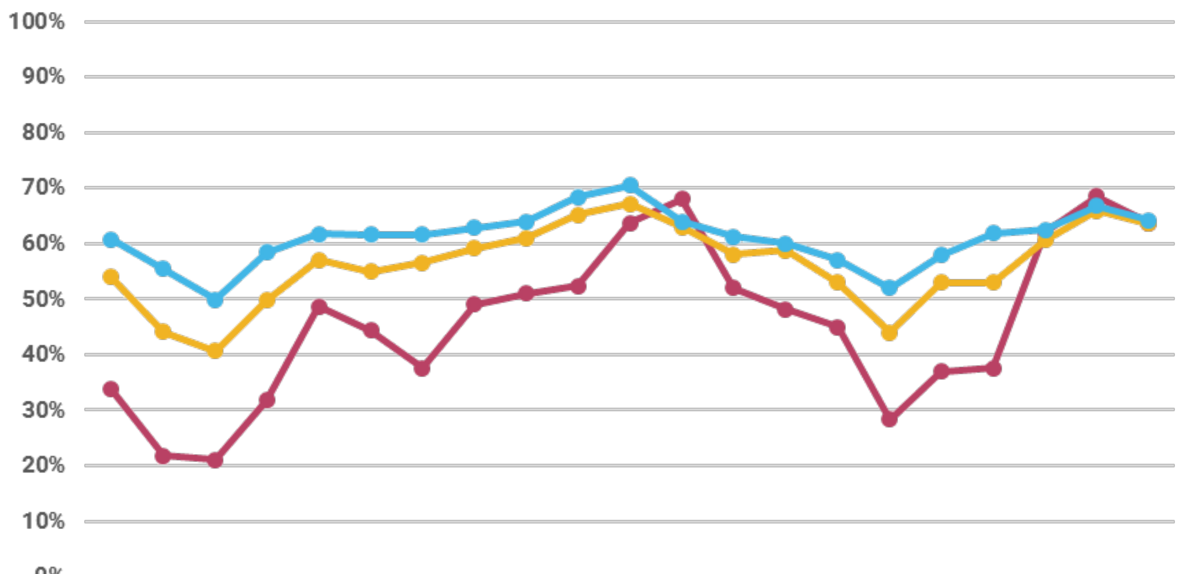
Outlook for the U.S. Economy and Organizations

Optimism for economy and organizations decreased; expansion plans also decreased

The number of CPA executives who are optimistic about the U.S. economy declined from 69% in the first quarter, the highest since 2004 to 64% in the second quarter. The percentage of those pessimistic also dropped from 11% to 10%.

Organizational optimism also decreased from 66% to 64%, and the percentage of companies with expansion plans also declined from 67% in the first quarter of 2017 to 64% this quarter.

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



	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
U.S.	34%	22%	21%	32%	49%	44%	38%	49%	51%	52%	64%	68%	52%	48%	45%	28%	37%	38%	62%	69%	64%
Organization	54%	44%	41%	50%	57%	55%	57%	59%	61%	65%	67%	63%	58%	59%	53%	44%	53%	53%	61%	66%	64%
Expansion	61%	56%	50%	58%	62%	62%	62%	63%	64%	68%	71%	64%	61%	60%	57%	52%	58%	62%	62%	67%	64%

Concerns about inflation also eased slightly in the second quarter. After increasing to 33% in the first quarter of 2017, only 31% of respondents indicated their concern about inflation this quarter. After showing some degree of concern about deflation at points in 2016, only 5% are now concerned about deflation, an uptick of only 2 points from the first quarter.

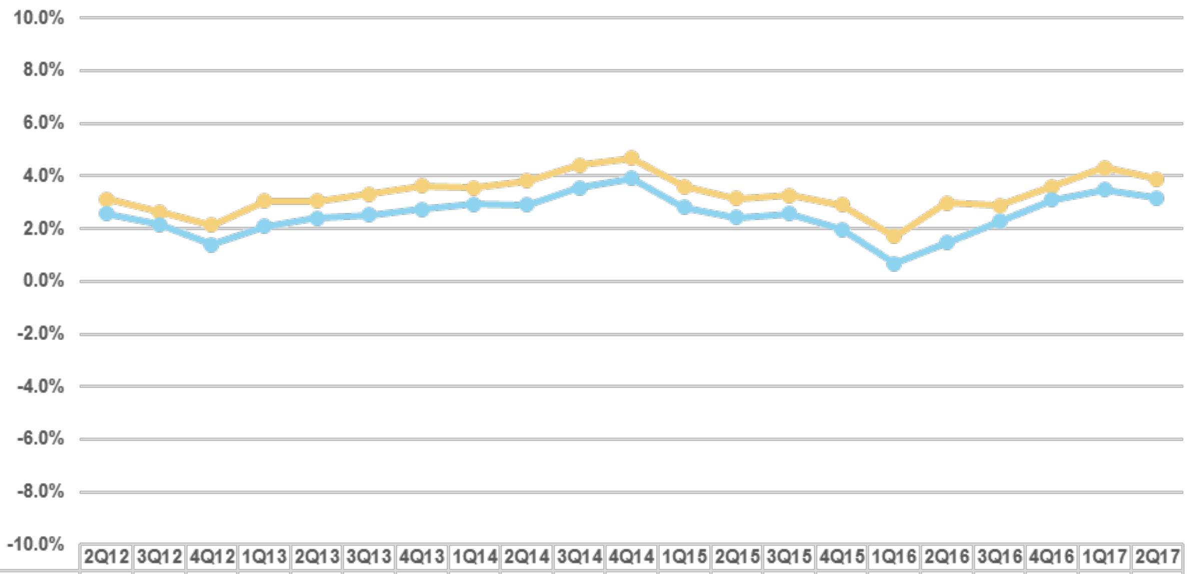
Labor costs continue to be the most pressing concern for 42% of respondents, increasing from 40% in the first quarter. Raw material cost concerns increased another point to 25%, up from 20% in the fourth quarter of 2016 and 24% last quarter. Interest rate concerns also inched up another point to 24% after dropping from 23% to 21% in the first quarter of 2017. Energy cost concerns remained constant with the first quarter level of concern at 8%.

Key Performance Indicators

Revenue and profit expectations ease slightly, spending plans continue to show strength

Consistent with the declines in optimism and plans for expansion, expectations for increased revenues also fell off from the 4.3% level in the first quarter to 3.9% in the second quarter. Expectations for profits in the coming year also gave back some of the gains seen in 2016, easing from 3.5% in the first quarter to 3.2% this quarter, still above the below 3% levels experienced over the past five years, with the exceptions of the third and fourth quarters of 2014.

Expectations for Revenue and Profits



	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17
Revenue	3.1%	2.6%	2.1%	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%
Profit	2.6%	2.2%	1.4%	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%

IT continues to be the strongest category of planned spending over the upcoming twelve months, improving another two tenths, from an expected rate of increase of 3.0% to 3.2%. Other capital spending plans rebounded to 2.8% after slipping from 2.7% in the fourth quarter of 2016 to 2.6% in the first quarter. Spending for training and development also improved another two tenths, to 2.0%, up from 1.8% in the first quarter, and 1.6% in the fourth quarter of 2016. Plans for spending on marketing, and for R&D both eased a tenth of a point in the second quarter.

Healthcare cost increases continue to be higher than other costs, however, the expected rate of increase fell another tenth from 5.6% to 5.5% after jumping to 6.1% in the fourth quarter of 2016.

Reflecting the level of concern about inflation, the expected increase in "other input prices" ticked up a tenth, from 2.4% in the first quarter to 2.5% in the second quarter. The expected ability to increase "prices charged" remained consistent with the first quarter at 1.9%.

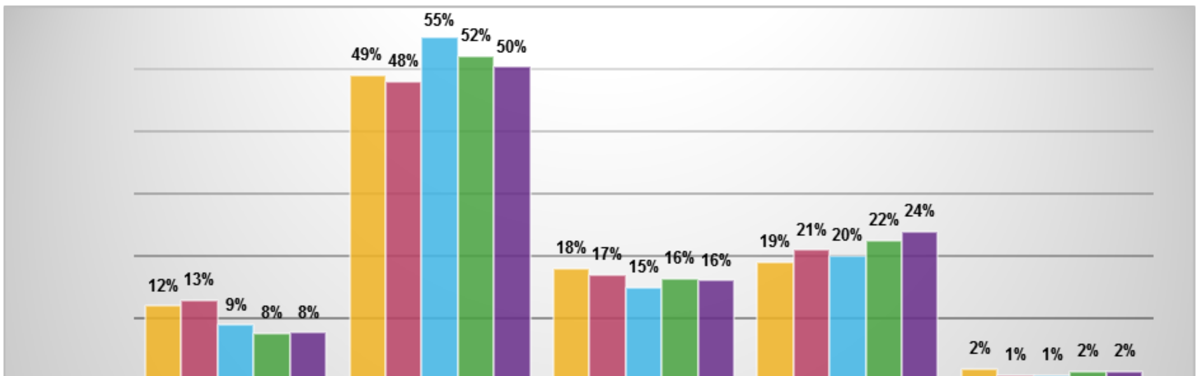
Hiring Plans

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

In this quarter, 50% of all companies now say they have the appropriate number of employees. Those saying they have an excess number of employees remained consistent at 8%.

This quarter, 40% now indicate that they currently have too few employees. Of these, the percentage of companies that are planning to hire gained another two points increasing to 24%, up from only 20% in the fourth quarter, and 22% in the first quarter. The percentage of those who are reluctant to hire remained consistent with the first quarter level of 16%.

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
2Q16	12%	49%	18%	19%	2%
3Q16	13%	48%	17%	21%	1%
4Q16	9%	55%	15%	20%	1%
1Q17	8%	52%	16%	22%	2%
2Q17	8%	50%	16%	24%	2%

Employment plans by business size, however, are somewhat mixed:

- For employers with > $1 billion in revenues, 33% have too few employees. Of these, 16% have plans to hire; 17% are hesitant.
- Employers with revenues < $10 million are also mixed; while 39% have too few employees, only 19% are planning to hire; 20% are hesitant.
- In the $10 - $100 million range, 29% of the total of 42% with too few employees have plans to hire; only 13% are hesitant.
- Similarly, of the 45% of those in the $100 million to $1 billion category who say they have too few employees, 27% are hiring, and only 18% are hesitant.

Industry, Region and Business Size Outlook

Optimism rebounds for retail; other sectors give back some first quarter gains

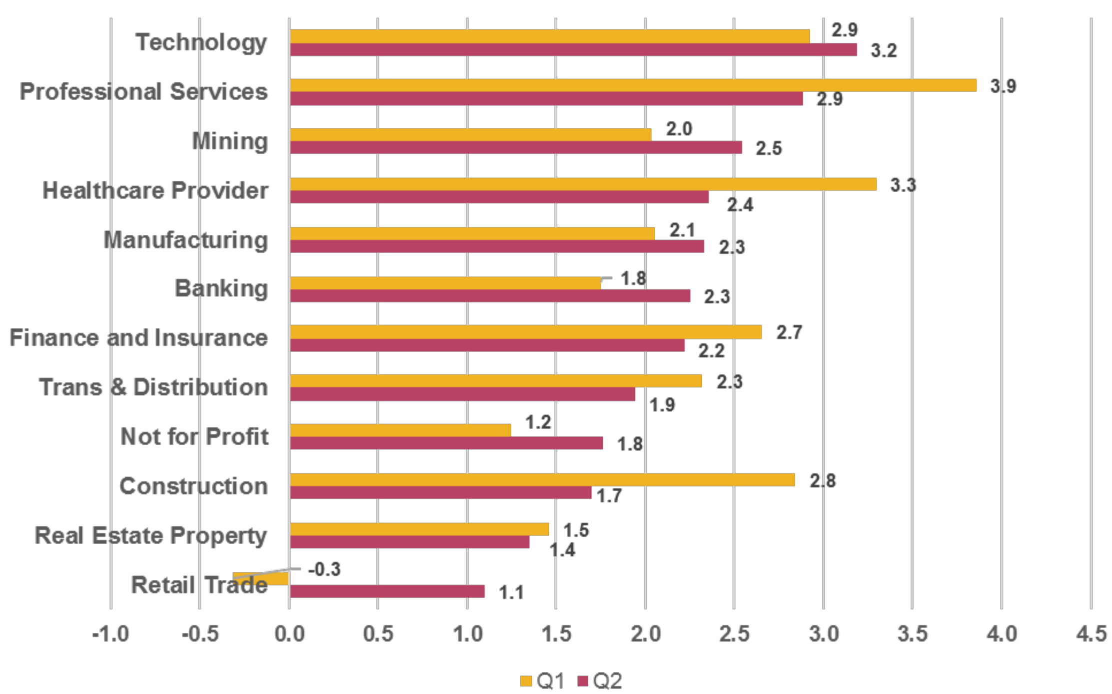
Retail trade rebounded in this quarter to 58% of respondents being optimistic, up from only 38% in the first quarter. Retail hiring continues to be soft, but recovered from <0.3%> in the first quarter to 1.1% in the second quarter. Wholesale trade optimism, however, gave back its significant jump to 79% optimistic in the first quarter, falling to only 57% in the second quarter.

Manufacturing optimism eased from 74% in the first quarter to 66% in the second quarter. However, hiring in the manufacturing sector improved, increasing from an expected rate of headcount increase of 2.1% in the first quarter to 2.3% in the second quarter.

Construction optimism dropped from 74% to 66% in the second quarter. The expected increase in construction headcount also declined from 2.8% in the first quarter to 1.7% in the second quarter. Real Estate optimism also dropped, falling from 79% in the first quarter to 63% in the second quarter.

Technology optimism declined from 65% in the first quarter to 56% in the second quarter, although hiring improved two tenths from 2.0% to 2.2%. Hiring in the Professional Service sector eased from 3.9% in the first quarter to 2.9% this quarter, with optimism declining from 66% to 62%. Finance and Insurance optimism declined from 74% last quarter to 66%.

Expected Employment Change by Industry



Healthcare provider optimism jumped from 43% in the first quarter to 52% in the second quarter of 2017. Healthcare-other optimism dropped from 70% to 60%.

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

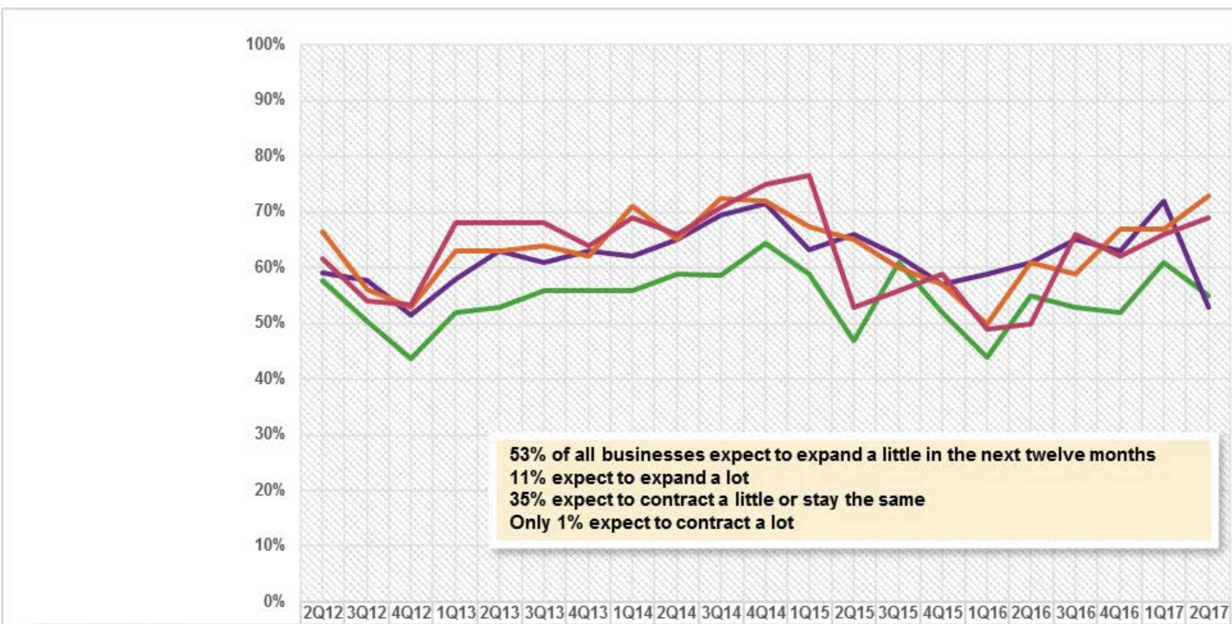
Regional optimism and expansion plans by business size show mixed results

In terms of regional perspective, the South gave back some of its first quarter gains, falling from 71% to 65% optimistic. Optimism in the West also declined, dropping from 68% to 62%. The Midwest maintained its 65% level of optimism, and the Northeast improved slightly from 57% to 60% optimistic.

Expansion plans and hiring plans by size of company were similarly mixed:

- The number of companies with revenues < $10 million having expansion plans dropped to 55%, down from 61% in the first quarter;
- Expansion plans for the $10-$100 million range of companies dropped to 53%, down 19 points from the jump to 72% in the first quarter, and 63% in the fourth quarter of 2016
- The $100 million to <$1 billion range of companies improved from 67% to 73% in Q2
- The percentage of companies with revenues > $1 billion having expansion plans also improved from 66% to 69% now indicating they have expansion plans for the coming year

Expansion Plans by Business Size



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< $10 million	58%	50%	44%	52%	53%	56%	56%	56%	59%	59%	65%	59%	47%	61%	52%	44%	55%	53%	52%	61%	55%
$10 to <$100 million	59%	58%	52%	58%	63%	61%	63%	62%	65%	69%	72%	63%	66%	62%	57%	59%	61%	65%	63%	72%	53%
$100 million to <$1 billion	66%	56%	53%	63%	63%	64%	62%	71%	65%	73%	72%	67%	65%	60%	57%	50%	61%	59%	67%	67%	73%
> $1 billion	62%	54%	53%	68%	68%	68%	64%	69%	66%	71%	75%	77%	53%	56%	59%	49%	50%	66%	62%	66%	69%

Top Challenges

Employee costs and availability continue to be challenging; regulatory concerns ease another slot

Personnel related concerns continue to be increasingly pressing, while environmental issues ease.

- Employee and benefit maintained its top spot in the ranking of challenges
- Availability of skilled personnel moved up a notch, replacing regulatory requirements which slipped from second to third
- Domestic economic conditions and domestic competition maintained their fourth and fifth place positions
- Staff turnover jumped from ninth to sixth, while changing customer preferences fell from sixth to tenth
- Domestic political leadership dropped two more slots from seventh to ninth
- Developing new products/services/markets moved up from the seventh to the sixth slot
- Materials/supplies/equipment costs, which returned to the top ten in Q1, moved up two notches to eighth

Top Challenges Facing Organizations

	2Q16	3Q16	4Q16	1Q17	2Q17
1	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes	Employee and benefits costs	Employee and benefits costs
2	Domestic economic conditions	Domestic economic conditions	Employee and benefits costs	Regulatory requirements/changes	Availability of skilled personnel
3	Availability of skilled personnel	Availability of skilled personnel	Domestic economic conditions	Availability of skilled personnel	Regulatory requirements/changes
4	Domestic competition	Domestic competition	Availability of skilled personnel	Domestic economic conditions	Domestic economic conditions
5	Employee and benefits costs	Employee and benefits costs	Domestic competition	Domestic competition	Domestic competition
6	Stagnant/declining markets	Stagnant/declining markets	Developing new products/services/markets	Changing customer preferences	Staff Turnover
7	Domestic political leadership	Domestic political leadership	Domestic political leadership	Domestic political leadership	Developing new products/services/markets
8	Developing new products/services/markets	Liquidity	Changing customer preferences	Developing new products/services/markets	Materials/supplies/ equipment costs
9	Liquidity	Developing new products/services/markets	Stagnant/declining markets	Staff Turnover	Domestic political leadership
10	Energy costs	Financing (access/cost of capital)	Staff Turnover	Materials/supplies/ equipment costs	Changing customer preferences

Survey within the Survey

Corporate Income Tax Reform

When asked about the new administration's proposal to lower federal corporate income taxes, there were some notable differences between the responses to questions asked in both the first quarter and second quarter about the expected timing and impact of a tax reduction.

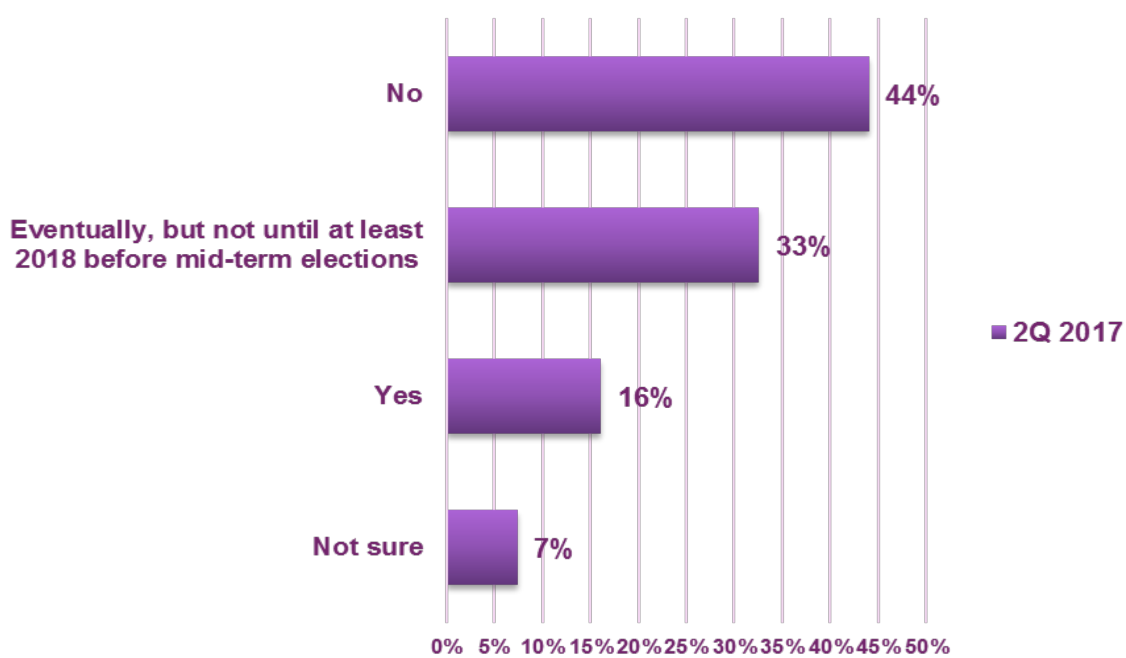
Responses to second quarter questions about the expected impact of tax reform on the outlook for respondents' own organizations, and about the expected impact on their outlook about the economy if tax reform fails to be implemented, were also notable.

Timing

There was a significant decrease in the number of respondents who indicated they expected the administration's proposal to lower federal corporate income taxes to 15% will be enacted this year, from 31% in the first quarter to only 16% in the second quarter.

This was accompanied by a corresponding increase in the number who did not expect enactment this year from 11% in the first quarter to 44% this quarter. There was also a significant increase in those who think tax reform will be enacted eventually, but not until at least 2018 before mid-term elections.

Corporate Tax Reform Enactment



Bottom Line Impact

There was also a notable shift in the expected bottom line impact of a corporate tax reduction.

The number of respondents who indicated they would not expect a bottom line impact increased from 36% to 43%. The number who would expect a positive impact declined from 60% to 51% (it should be noted that survey respondents include a number from not-for-profit sector).

For those who would expect to have a positive impact on their bottom line:

- 46% indicated they would likely increase capital expenditures and business expansion spending,
- 20% would they would hire more full-time (17%) or part-time workers (3%), and
- 12% indicated they might acquire or merge with another company.

With respect to deploying the savings on ownership-related transactions:

- 25% said they would pay down debt,
- 16% would issue or increase dividends, and
- 4% would buy back stock.

Other deployment responses included compensation-related options such as increasing bonuses, incentive compensation, wages and profit-sharing benefits, and business investment related options, including building capital to support growth, developing new products and increasing R&D spending.

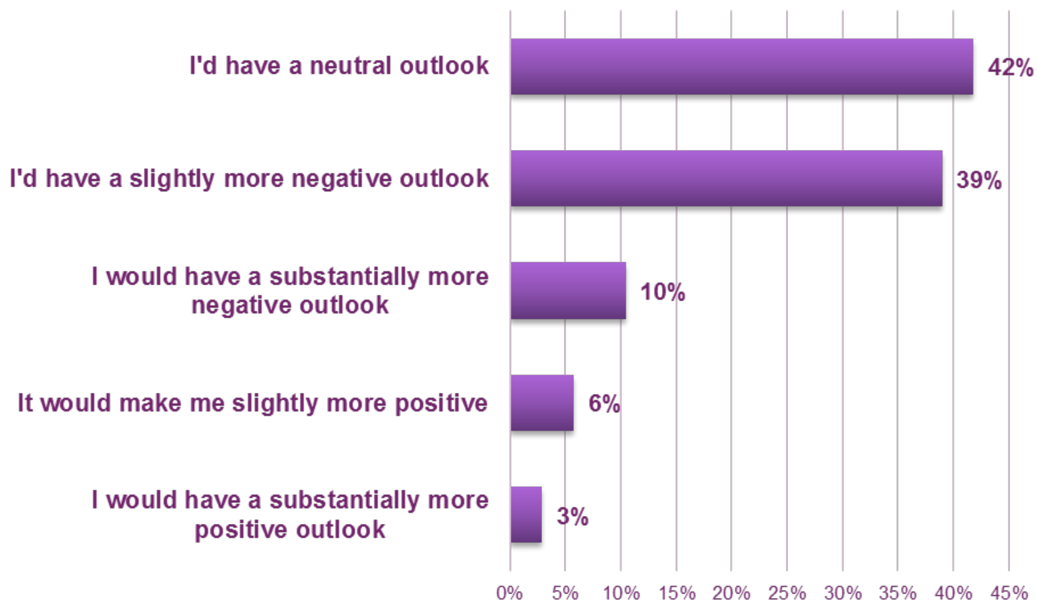
Impact on Outlook of Reform, or Failure to Reform

As might be expected, when asked *how much would enactment of tax reform shape your view of your own company's prospects*:

- 52% of respondents said that it would give them a more positive outlook, and only
- 3% indicated it would give them a more negative impact.
- 45% indicated that tax reduction would not change their outlook for their own company's prospects

When asked *if tax reform fails to be implemented before the 2018 mid-term elections, what impact do you expect that will have on your outlook for the U.S. economy*, 49% indicated it would give them a more negative impact, 9% a more positive outlook with the balance of 42% having a neutral outlook.

Expected Impact of Failing to Enact Tax Reform on Outlook for Economy



Survey Background

The survey was conducted of AICPA Business & Industry members between May 2-17, 2017, and had 726 qualified respondents.

CFOs comprised 47% of the respondents, 22% were Controllers, 10% were CEOs or Presidents, 8% were VP/SVPs, 5% were Directors, 2% were COOs and 1% were CAOs; the remainder were other executives.

Seventy-one percent of respondents came from privately owned entities, 14% from publicly listed companies, and 14% from not-for-profits.

Eleven 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, 45% from organizations with $10 million to $100 million and 20% from organizations with under $10 million in revenues.