Management Accounting

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Economic Outlook Survey

2nd 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.

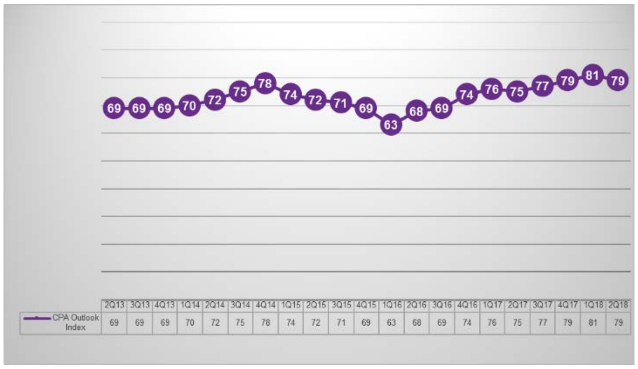
CPA Outlook Index

The CPA Outlook Index (CPAOI) decreased another 2 points to 79 in the second quarter of 2018.

The index component for optimism about the U.S. Economy dropped from 86 to 83, still up 6 from 77 in the second and third quarters of 2017.

Organization optimism and expansion plans, along with revenue and profit and spending indicators all reflected this slight easing of optimism about the economy. Employment plans continued to show improvement this quarter, and training plans remained constant.

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.

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CPA Outlook Index

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

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

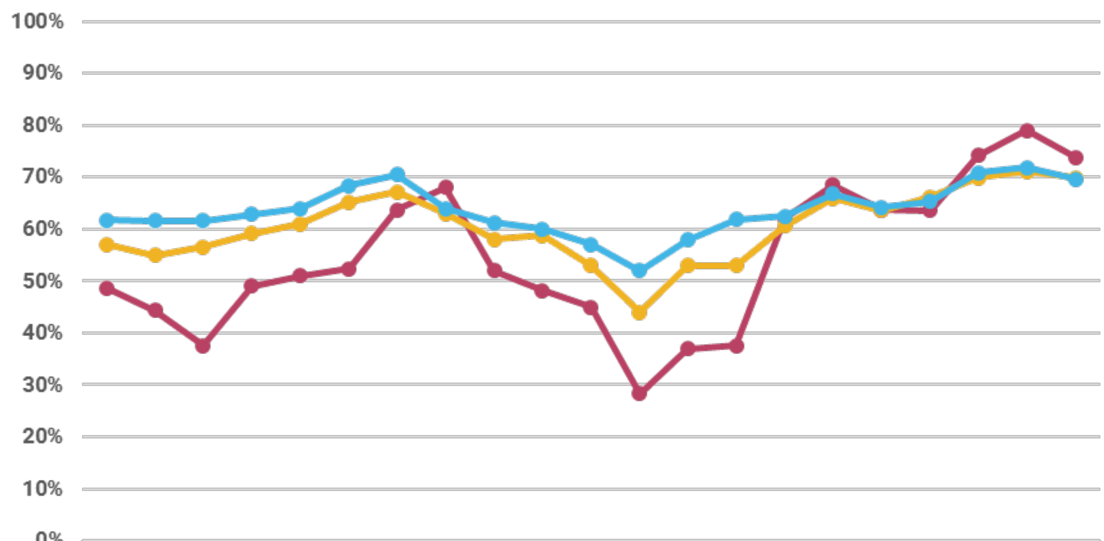
Optimism for the U.S. Economy remains strong but gives back its first quarter jump

The percentage of CPA executives who are optimistic about the U.S. continues to be quite strong at 74%, although giving back the 5% jump to the record high of 79% seen in the first quarter of 2018.

Optimists site the general strength of many economic indicators along with the benefits of corporate tax cuts and deregulation. Downside concerns included increasing debt, trade relations and the possibility of a market correction. Ongoing concerns about the political environment continue to be expressed by both optimists and pessimists about the economy.

Organizational optimism continues to be strong while giving back a point from its post-recession first quarter high of 71%. Similarly, the percentage of companies with expansion plans eased two points from 72% to now 70% of respondents having plans for expanding their business.

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



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

The increased concern about inflation seen in the first quarter remained constant with 49% of respondents expressing worry about inflation. While early in 2016 we saw some level of concern about deflation, now only 3% of respondents have that concern.

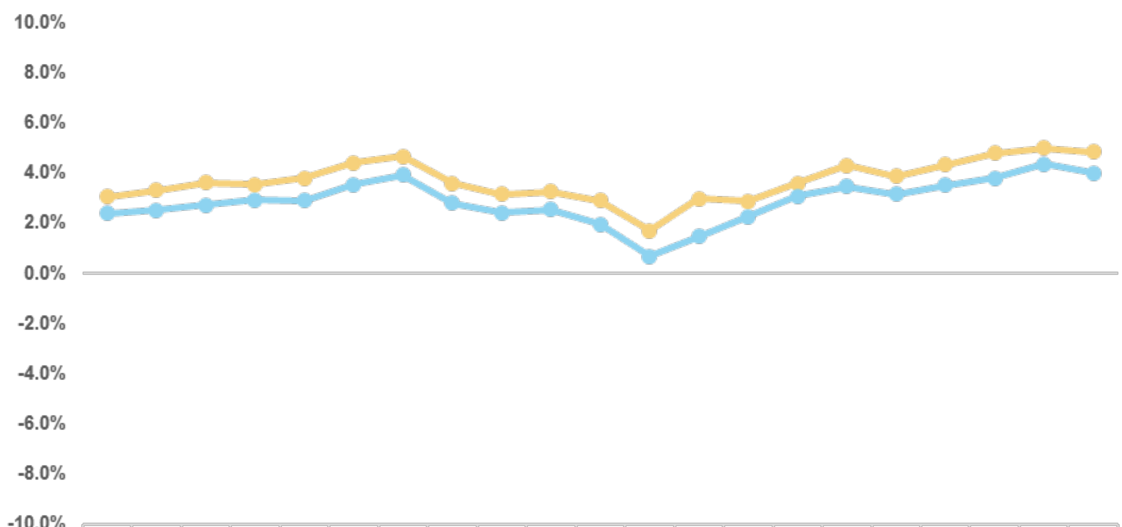
Labor costs continue to be the highest-ranking inflation concern for 39% of respondents. Raw materials cost concerns jumped from 25% to 31%, while interest rate concerns eased from 22% to 18%. Other identified concerns included freight, drilling rig expenses, drug costs, and foreign exchange.

Key Performance Indicators

Revenue and profit projections give back some gains but remain strong

Revenues are now expected to grow at a rate of 4.8%, down slightly from the 5.0% rate expected in the first quarter. Profit expectations also eased slightly from a projected rate of 4.4% in the first quarter to now a rate of 4.0%.

Expectations for Revenue and Profits



	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
Revenue	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%	4.8%
Profit	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%	4.0%

Spending plans continue to be strong. While technology optimism and hiring came in a bit softer, technology spending is expected to be constant at a 3.7% rate. Training plans also held constant quarter over quarter at 2.4%.

Other capital spending plans eased to 3.6% in the second quarter from 3.9% in the first quarter. Marketing plans eased from an expected rate of 2.1% to 1.9%, while anticipated spending for R&D improved further on the first quarter post-recession high, increasing to 2.2%.

Salary and benefits costs inched up another tenth this quarter, from 2.7% to a 2.8% expected rate of increase. Expected healthcare cost increases which continue to be higher than other costs, rebounded to an expected rate of 5.9% after easing 5.6% in the first quarter.

Reflecting the increased concern about inflation, the expected increase in “other input prices” gained a full half a point to 3.2% up from 2.7%, which was a post-recession high. On the other side of the equation, the expected ability to increase “prices charged” also increased four tenths to 2.5%, up from 2.1% in the first quarter.

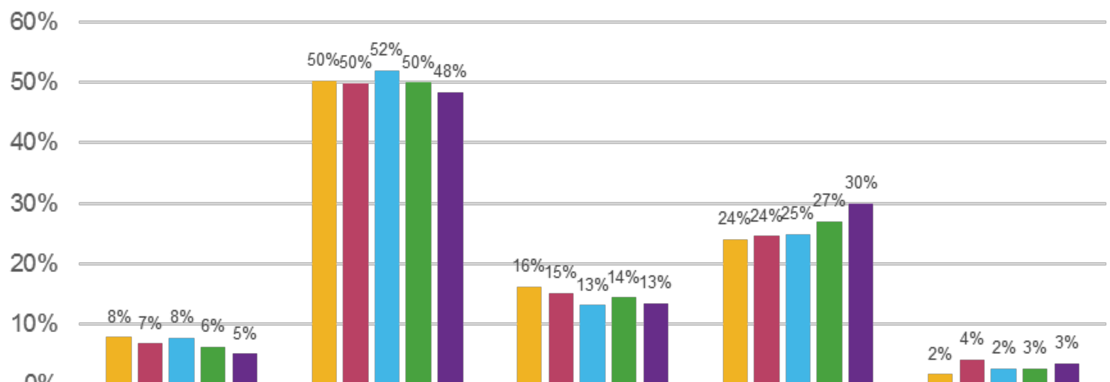
Hiring Plans

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

In this quarter 48% of all companies say they have the appropriate number of employees. Those saying they have an excess number of employees eased from 6% to only 5% overall. The number of companies with revenues in excess of $1 billion having too many employees declined from 15% to only 9% in the second quarter.

This quarter, 43% now indicate that they currently have too few employees, up from 41% last quarter. Of these, the percentage of companies that are planning to hire improved another three points to 30%. The percentage of those who are reluctant to hire decreased a point to 13%. 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
2Q17	8%	50%	16%	24%	2%
3Q17	7%	50%	15%	24%	4%
4Q17	8%	52%	13%	25%	2%
1Q18	6%	50%	14%	27%	3%
2Q18	5%	48%	13%	30%	3%

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

- For employers with > $1 billion in revenues, only 42% have the right number of employees and only 9% have an excess number, leaving 44% with too few employees. Of those, 20% remain hesitant, while 24% are planning to hire.
- Of those in the $100 million to $1 billion category, 49% now say they have too few employees; 31% are hiring with only 13% being hesitant.
- In the $10 - $100 million range, of the total of 43% with too few employees, 33% have plans to hire; only 10% are hesitant.
- For employers with revenues < $10 million, now only 52% say they have the right number, down from 61% in the first quarter; only 3% have an excess of employees; of the 40% having too few employees, 26% are planning to hire; only16% are hesitant.

Industry, Region and Business Size Outlook

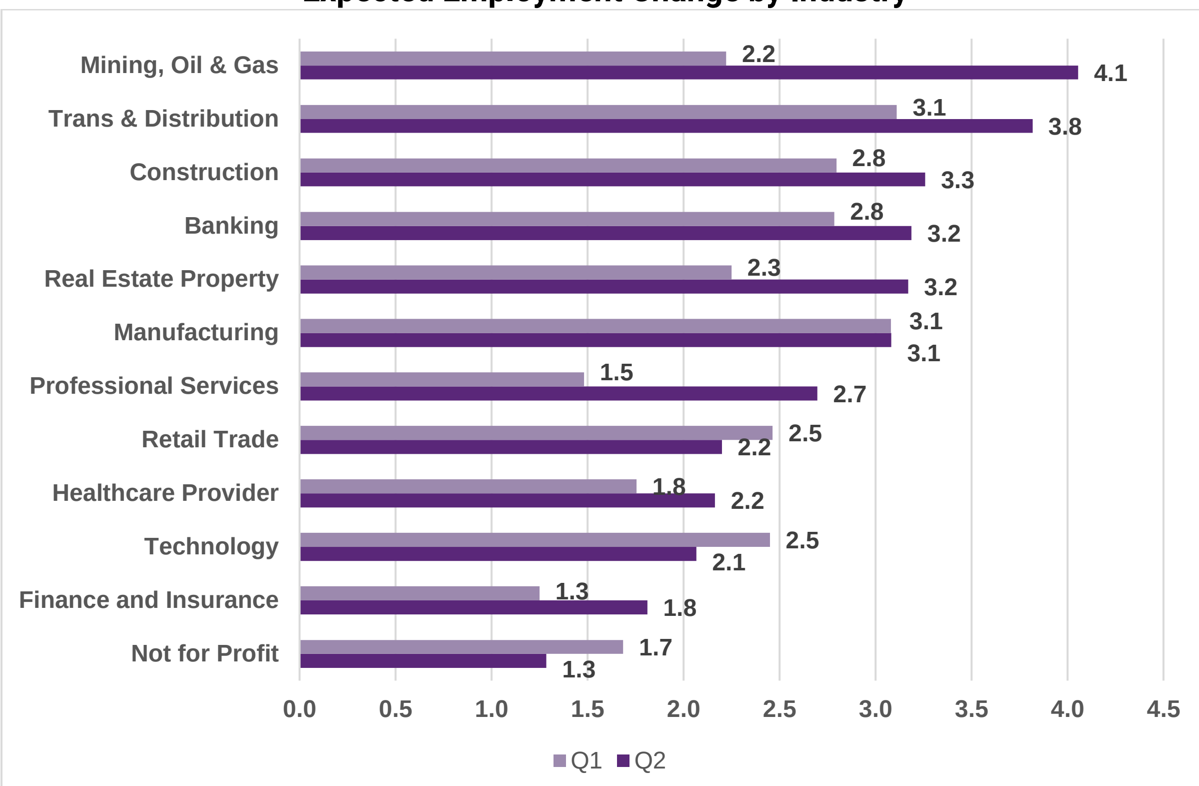
Optimism and hiring eases in some sectors, continues strong in others

Retail trade optimism eased back to 61%, after improving to 66% in the first quarter. Retail hiring also eased slightly from an expected rate of increase of 2.5% in the first quarter to a 2.2% increase in the second quarter.

Manufacturing optimism also gave back two points, easing to 75% after rebounding to 77% in the first quarter. Construction also eased another point to 76%, down from 77% in the first quarter and 80% in the fourth quarter of 2017. Manufacturing hiring remained constant at a 3.1% expected rate of increase, while construction hiring eased from 3.3% in the first quarter to 2.8% in the second quarter.

Real estate and property also maintained its high level of optimism, improving another two points to 78%, with an increase in expected hiring to 3.2%, up from 2.3% in the first quarter.

Expected Employment Change by Industry



Although spending for technology is expected to remain constant, technology optimism declined from a high of 80% in the first quarter to only 69% optimistic in the second quarter. Hiring plans in the technology sector also declined from an expected rate of 2.5% to only 2.1% going forward from the second quarter.

Finance and insurance optimism also fell off in the second quarter to 69%, down from 79% optimistic in the first quarter. However, hiring improved from 1.3% to 1.8%.

Professional services optimism and hiring continued to rebound in the second quarter. Optimism improved from 78% to 82% optimistic, and professional services hiring jumped from 1.5% in the first quarter to 2.7% in the second quarter.

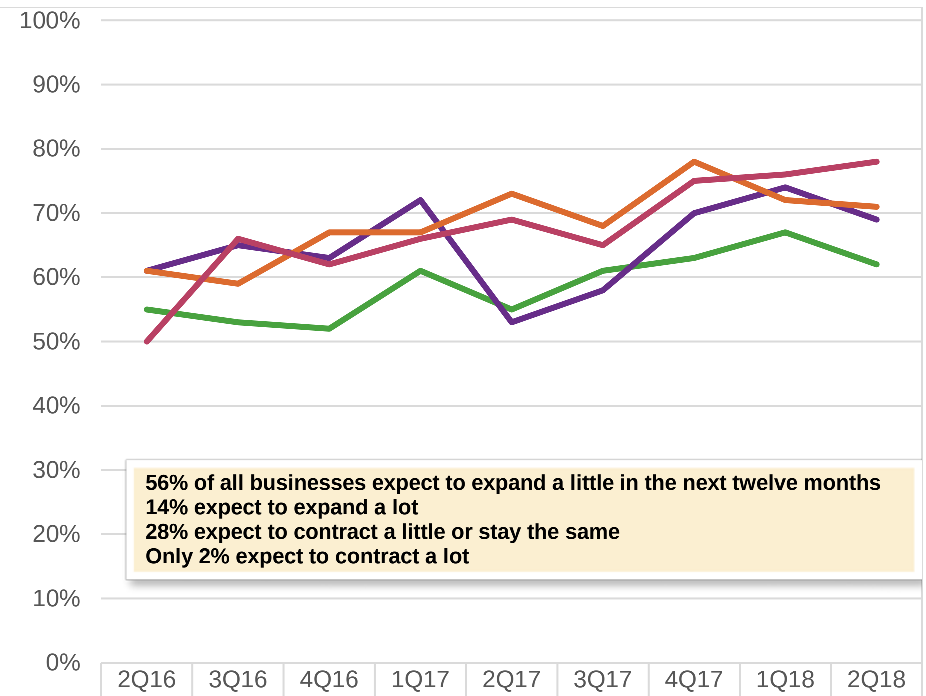
Healthcare optimism declined sharply from 61% optimistic in the first quarter to now only 44% optimistic. Planned healthcare hiring however improved from 1.3% in the first quarter to 1.8% in the second quarter. On the other hand, optimism in the healthcare – other sector (pharma, devices, etc.) jumped from 76% optimistic in the second quarter to 88% optimistic in the second quarter.

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

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

In terms of regional perspective, the Midwest eased another point from 71% in the first quarter to 70% in the second. Optimism in the West fell from 75% optimistic in the first quarter to 68% in the second quarter. In the South, optimism gained another two points to now 74% of respondents being optimistic. The Northeast continues to be the least optimistic region, and fell back to only 59% optimistic in the second quarter, down from 65% in the first quarter.

Expansion Plans by Business Size



	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18
< $10 million	55%	53%	52%	61%	55%	61%	63%	67%	62%
$10 to <$100 million	61%	65%	63%	72%	53%	58%	70%	74%	69%
$100 million to <$1 billion	61%	59%	67%	67%	73%	68%	78%	72%	71%
> $1 billion	50%	66%	62%	66%	69%	65%	75%	76%	78%

Expansion plans:

- The number of companies with revenues < $10 million having expansion plans fell back to 62%, down from a post-recession high of 67% with plans to expand
- Expansion plans for the $10-$100 million range of companies also gave back first quarter gains, declining from 74% to only 69% now with expansion plans
- After a big jump in the fourth quarter followed by some easing in the first quarter, 71% of companies in the $100 million to <$1 billion range now have expansion plans
- The percentage of companies with revenues > $1 billion improved another two points with now 78% of this category of largest companies having plans to expand

Top Challenges

Availability of skilled personnel continues to be most challenging

- Availability of skilled personnel continues as the top challenge;
- Regulatory requirements/changes jumped from #4 to #2, while domestic competition dropped from #2 to #4
- Employee and benefit costs maintained its third place ranking and staff turnover maintained its top ten ranking at #7
- Materials/supplies/equipment costs jumped from 10th to 5th place this quarter, followed by domestic economic conditions, maintaining its 6th place spot
- Changing customer preferences maintained the 8th place ranking, followed by developing new products/services/markets, which fell to 9th place after moving to 5th place in early 2018
- Domestic political leadership returned to the top ten challenge list after a brief respite in Q1, 2018

Top Challenges Facing Organizations

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

Survey Background

The survey was conducted of AICPA Business & Industry members between May 8-23, 2018, and had 831 qualified respondents.

CFOs comprised 42% of the respondents, 20% were Controllers, 10% were CEOs or Presidents, 10% were VP/SVPs, 6% were Directors, 2% were COOs, and 1% were CAOs; the remainder were other executives.

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

Fourteen percent came from organizations with annual revenues of $1 billion or more, 21% 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.

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