Association of International Certified Professional Accountants®

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Economic Outlook Survey

2nd quarter 2019 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.

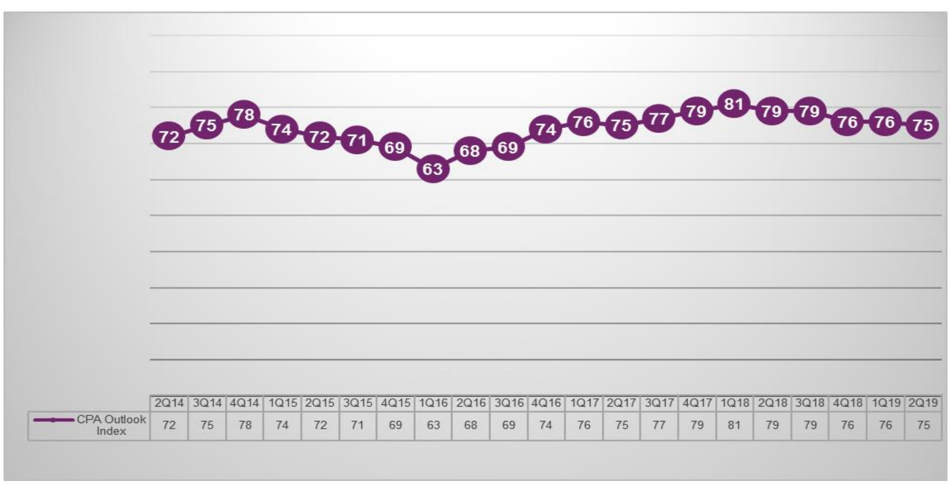
CPA Outlook Index

The CPA Outlook Index (CPAOI) dropped from a two- quarter constant of 76 to 75.

The index component for optimism about the U.S. Economy also dropped 2 points to 70 in the second quarter, but still down 13 points from the second quarter 2018.

Organization optimism and expansion plans, along with revenue and profit and a number of spending categories declined slightly, while other capital spending, IT and employment 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	2Q18	3Q18	4Q18	1Q19	2Q19	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	83	79	71	72	70	↓02	↓13
Organization Optimism	80	81	79	77	75	↓02	↓05
Expansion Plans	79	80	77	76	75	↓01	↓04
Revenue	83	85	83	82	81	↓01	↓02
Profits	77	79	77	75	72	↓03	↓05
Employment	75	76	73	71	71	→00	↓04
IT Spending	82	82	81	80	80	→00	↓02
Other Capital Spending	78	78	73	74	74	→00	↓04
Training & Development	77	75	74	75	73	↓02	↓04
Total CPAOI	79	79	76	76	75	↓01	↓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.

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%].

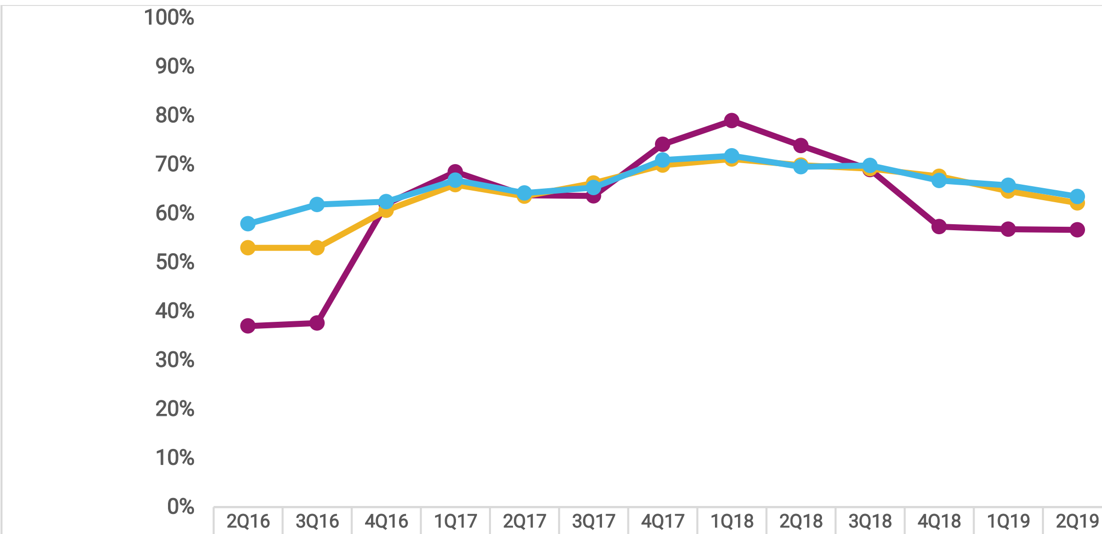
Outlook for the U.S. Economy and Organizations

Optimism for the U.S. Economy flat, organization optimism eases

In the second quarter of 2019 the percentage of CPA executives who are optimistic about the U.S. economy remained constant with 57% of respondents continuing to be optimistic. However, optimism about respondents' own organizations eased from 65% in the first quarter to 62% in the second quarter. Expansion plans also eased. In the second quarter, 63% of companies have plans to expand their operations in the coming twelve months, as compared with 66% in the first quarter.

Optimists cite continued overall economic strength, lower taxes and less of a regulatory burden under the current administration. Pessimists cite the impact of tariffs on purchasing and overall growth, slowing global demand and auto industry easing. High levels of national, corporate, and personal debt were also the noted concern of many respondents.

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



	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
U.S.	37%	38%	62%	69%	64%	64%	74%	79%	74%	69%	57%	57%	57%
Organization	53%	53%	61%	66%	64%	66%	70%	71%	70%	69%	68%	65%	62%
Expansion	58%	62%	62%	67%	64%	65%	71%	72%	70%	70%	67%	66%	63%

The increased concern about inflation seen during much of 2018 continued to ease in the second quarter, with now only 29% being concerned. The level of concern about deflation also eased a point with only 5% of respondents now having that concern.

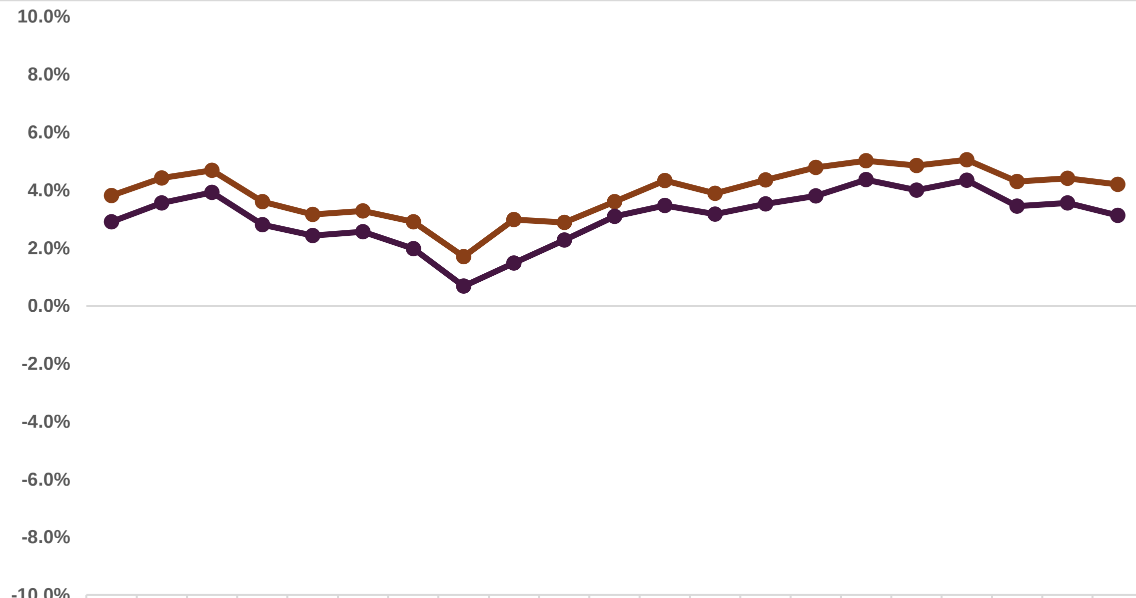
Labor costs continue to be the highest-ranking inflation concern for 39% of respondents. Raw materials cost concerns now stand at 29%. Interest rates as the top concern eased back to the second quarter 2018 level of 18%. Energy cost held constant at 7%.

Key Performance Indicators

Revenue and profit projections both give back some gains

Revenues are now expected to grow at a rate of 4.2%, down two tenths from the first quarter of 2019. Profit expectations took a sharp hit, falling to 3.1% after increasing above 4% in early 2018.

Expectations for Revenue and Profits



	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
Revenue	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%	5.0%	4.3%	4.4%	4.2%
Profit	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%	4.3%	3.4%	3.6%	3.1%

Spending plans are mixed. IT spending continues to lead the pack easing only a tenth of a point from the second quarter to an expected rate of increase of 3.4%. Spending for other capital increased a tenth to 3.0%. However, spending for training gave up two tenths to 2.1% after showing more strength in 2018.

Marketing spending plans gave up four tenths, declining from 2.0% in the second quarter, to only 1.6% going forward from the second quarter of 2019. Anticipated spending for R&D also gave up four tenths, declining from 1.9% to only 1.5%, levels last seen in 2017.

Salary and benefits cost expectations increased a tenth to a 2.7% rate of increase. Expected healthcare cost increases which continue to be higher than other costs, eased another point to only 5.1%, the lowest expected rate of increase since the third quarter of 2009.

Reflecting the lower level of concern about inflation, the expected increase in “other input prices” remained constant at 2.6%. On the other side of the equation, the expected ability to increase “prices charged” also recovered a point from 2.1% to 2.2%.

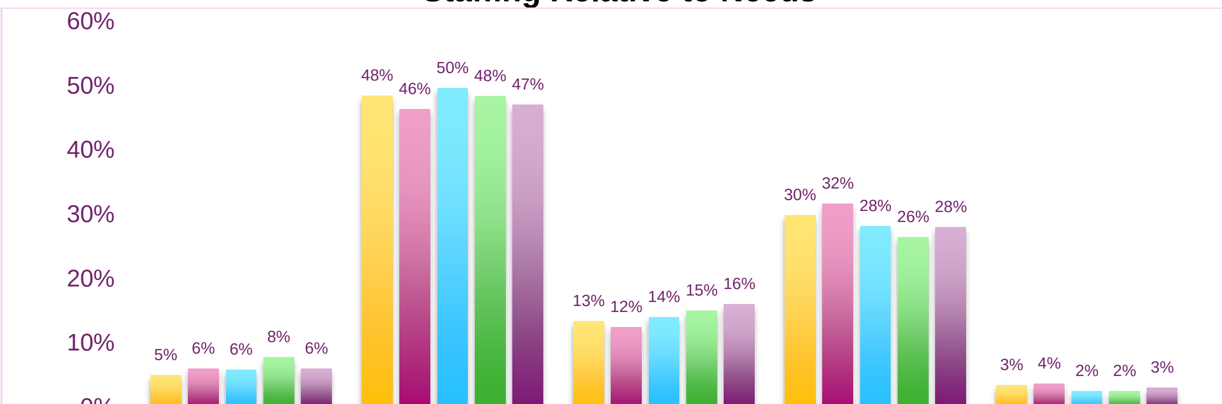
Hiring Plans

While some continue to have concerns, hiring plans continue to be strong

In this quarter 47% of all companies say they have the appropriate number of employees down a point from 48% in the first quarter. Those saying they have an excess number of employees eased from 8% to 6% overall. The number of companies with revenues in excess of $1 billion having too many employees eased from 7% in the first quarter to only 3% in the second quarter.

This quarter, 44% 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 increased 2 points from 26% to 28%. The percentage of those who are reluctant to hire increased another point from 15% to 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
2Q18	5%	48%	13%	30%	3%
3Q18	6%	46%	12%	32%	4%
4Q18	6%	50%	14%	28%	2%
1Q19	8%	48%	15%	26%	2%
2Q19	6%	47%	16%	28%	3%

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

- For employers with > $1 billion in revenues, only 3% now have excess employees, while 52% have too few. Of those with too few employees, 25% remain hesitant while 27% are planning to hire.
- Of those in the $100 million to $1 billion category, 43% say they have too few employees; only 28% are hiring; while 15% are hesitant.
- In the $10 - $100 million range, 46% now have too few employees; of those with too few, 32% have plans to hire; only 14% are hesitant
- Of employers with revenues < $10 million 40% have too few employees, down from 47% in Q1; 26% are planning to hire; 14% are hesitant.

Industry, Region and Business Size Outlook

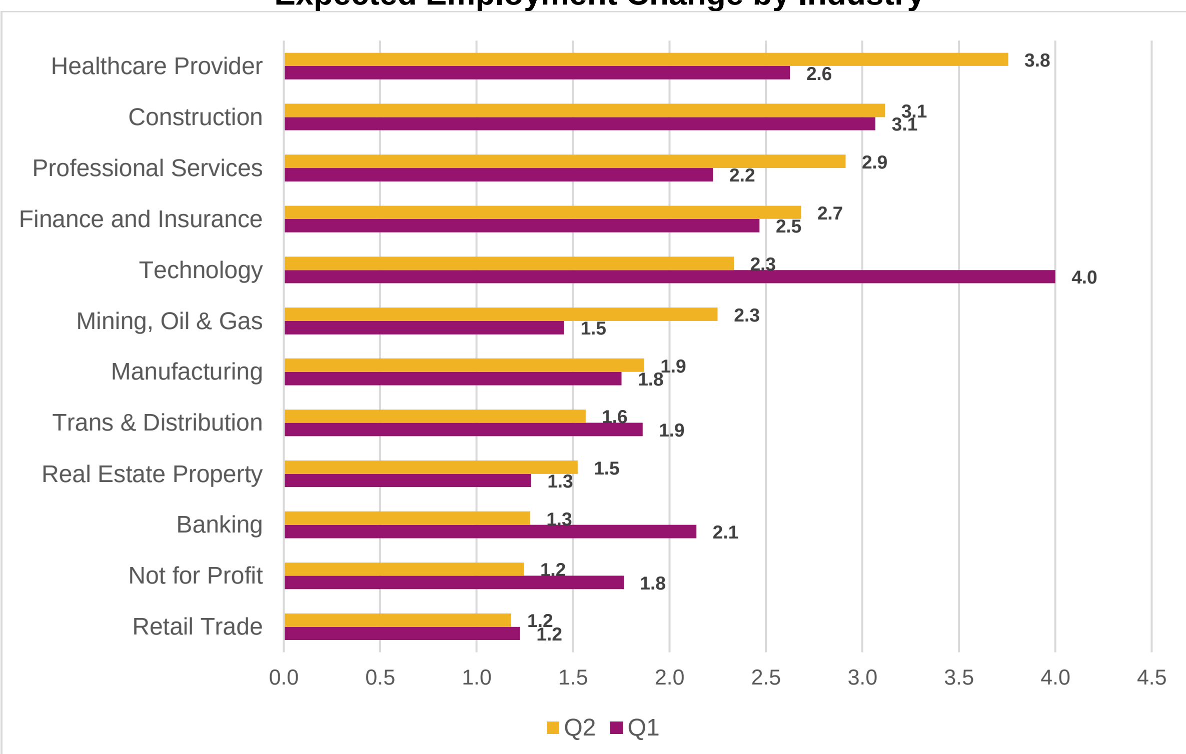
Optimism and hiring eases in some sectors, continues strong in others

Retail trade optimism declined further to only 40% optimistic, down from 69% in the fourth quarter of 2018, and 56% in the first quarter of 2019. Retail hiring plans are expected to be flat, increasing at a rate of only 1.2% for the coming twelve months.

Manufacturing optimism remains constant at 57% optimistic. Similarly, hiring is also expected to be relatively constant improving a tenth from 1.8% to 1.9%.

Construction optimism jumped up further from 74% to 83% optimistic, and expected hiring also continues to be strong at a 3.1% expected rate of increase. Real estate optimism recovered a bit of optimism, up from 64% to 67%; hiring also improved from 1.3% to 1.5%.

Expected Employment Change by Industry



Consistent with continued strong expectations for IT spending, IT optimism gained 5 points from 65% to 70% optimistic. However, expecting hiring in the IT sector eased from the first quarter high of 4.0% to 2.3% going forward from the second quarter.

Finance and Insurance optimism increased another 3 points from 74% to 77%; professional services optimism gave back another 4 points, easing from 65% to 61%. However, professional services hiring improved from a rate of 2.2% in the first quarter to 2.9% in the second quarter.

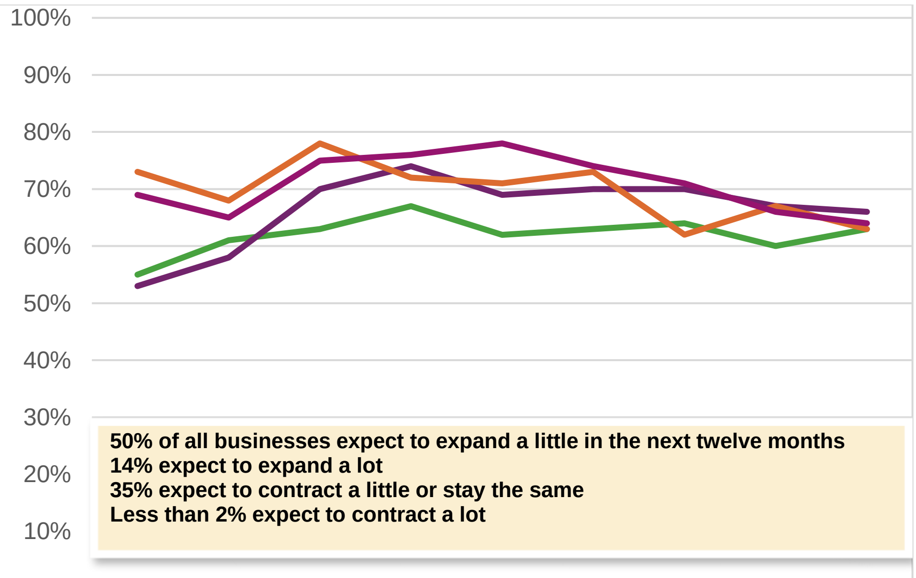
Healthcare optimism rebounded from 51% in the first quarter to now 63% being optimistic. Healthcare provider hiring plans also jumped from 2.6% to 3.8%. Healthcare-other optimism improved from 56% to 57% optimistic in the second quarter.

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

Regional optimism drops in West and Midwest, up in South and Northeast; expansion plans ease across the board

In terms of regional perspective, optimism in the West dropped 13% from the first quarter level of 74% to now only 61% optimistic; the Midwest declined 4% to now 60% optimistic. Optimism in the South improved from 67% to 72%; the Northeast gained 3% to 53% now being optimistic.

Expansion Plans by Business Size



	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19
< $10 million	55%	61%	63%	67%	62%	63%	64%	60%	63%
$10 to <$100 million	53%	58%	70%	74%	69%	70%	70%	67%	66%
$100 million to <$1 billion	73%	68%	78%	72%	71%	73%	62%	67%	63%
> $1 billion	69%	65%	75%	76%	78%	74%	71%	66%	64%

Expansion plans:

- Expectations for expansion by businesses with revenues < $10 million gained three points from 60% to 63%;
- Plans for companies in the $10 - $100 million category dropped a point to 66%;
- Expansion plans for companies in the $100 million to $1 billion range gave back four points, easing from 67% to 63% with expansion plans;
- Those with revenues in excess of $1 billion eased another two points to 64%.

Top Challenges

Availability of skilled personnel continues to be most challenging

- Availability of skilled personnel continues as the top challenge
- Domestic competition and employee and benefit costs switch places again between the 2nd and 3rd spots
- Regulatory requirements maintains its ranking at #4
- Staff turnover returned to 5th place after falling to 9th place in Q1
- Domestic economic conditions maintained at #6, while domestic political leadership dropped from #5 to #8
- Materials/supplies/equipment costs maintained the 7th spot
- Developing new products and services returned to the top 10, in the 9th place position
- Changing customer preferences dropped two spots, moving from the 8th to the 10th spot
- Financing (access/cost of capital) dropped out of the top 10 this quarter

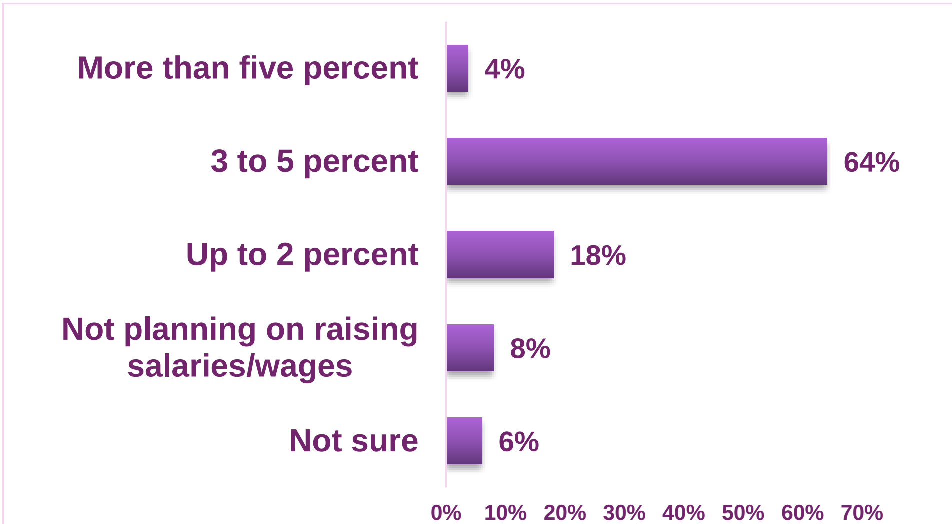
Top Challenges Facing Organizations

	2Q18	3Q18	4Q18	1Q19	2Q19
1	Availability of skilled personnel	Availability of skilled personnel	Availability of skilled personnel	Availability of skilled personnel	Availability of skilled personnel
2	Regulatory requirements/changes	Regulatory requirements/changes	Employee and benefits costs	Domestic competition	Employee and benefits costs
3	Employee and benefits costs	Domestic competition	Domestic competition	Employee and benefits costs	Domestic competition
4	Domestic competition	Employee and benefits costs	Regulatory requirements/changes	Regulatory requirements/changes	Regulatory requirements/changes
5	Materials/supplies/ equipment costs	Materials/supplies/ equipment costs	Staff Turnover	Domestic political leadership	Staff Turnover
6	Domestic economic conditions	Developing new products/services/markets	Domestic economic conditions	Domestic economic conditions	Domestic economic conditions
7	Staff Turnover	Staff Turnover	Materials/supplies/ equipment costs	Materials/supplies/ equipment costs	Materials/supplies/ equipment costs
8	Changing customer preferences	Domestic economic conditions	Developing new products/services/markets	Changing customer preferences	Domestic political leadership
9	Developing new products/services/markets	Domestic political leadership	Changing customer preferences	Staff Turnover	Developing new products/services/markets
10	Domestic political leadership	Financing (access/cost of capital)	Financing (access/cost of capital)	Financing (access/cost of capital)	Changing customer preferences

Recruitment and Retention Strategies

Employers increasing compensation and improving culture

To address the challenges of the current tight labor market companies are engaging in a comprehensive array of strategies to improve their recruitment and retention success. The vast majority (86%) of employers do have plans to increase salaries and wages for their employees for the coming twelve months, as summarized below:



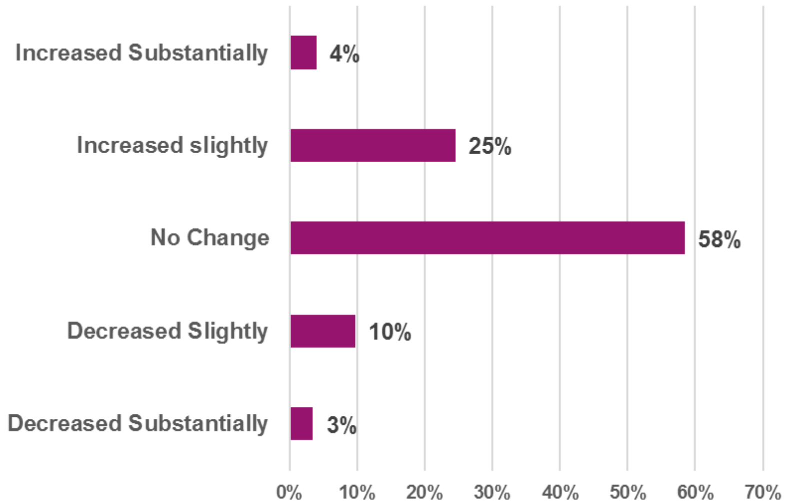
In addition to increasing salaries and wages, companies are employing other compensation and benefit-related tactics and culture-related tactics to address their employment concerns.

Compensation and benefit-related tactics	Organization and culture-related tactics
• Goal based incentive plans • Focused incentive plans • Retention bonuses • Match competing offers • Offer of ownership • Improved benefits • Additional time off • Flexible work schedules • Ability to work from home • Work/life balance	• Become an employer of choice • Work place excellence • Improve culture • Improve focus on employee morale and engagement • Increase employee training and career development • Improve recognition • Hiring for cultural fit • Support and value the employee • Greater focus on improving leadership for teams

Survey with the Survey – Financial Instruments

Complex financial instruments continue to pose risks.

When asked about the use of financial instruments, 404 of our respondents indicated they had financial instruments on their balance sheet. While a majority (58%) indicated no change in the composition of their balance sheet with respect to financial instruments over the course of the preceding three years, 25% said they have experienced a slight increase and another 4% have had a substantial increase.



With respect to prospective changes to their balance sheets over the coming 1-3 years, 26% indicate financial instruments will become a slightly higher percentage of the balance sheet, and 2% expect they will become a significantly higher percentage; 57% indicated they expected no change; the balance (15%) expect a smaller percentage.

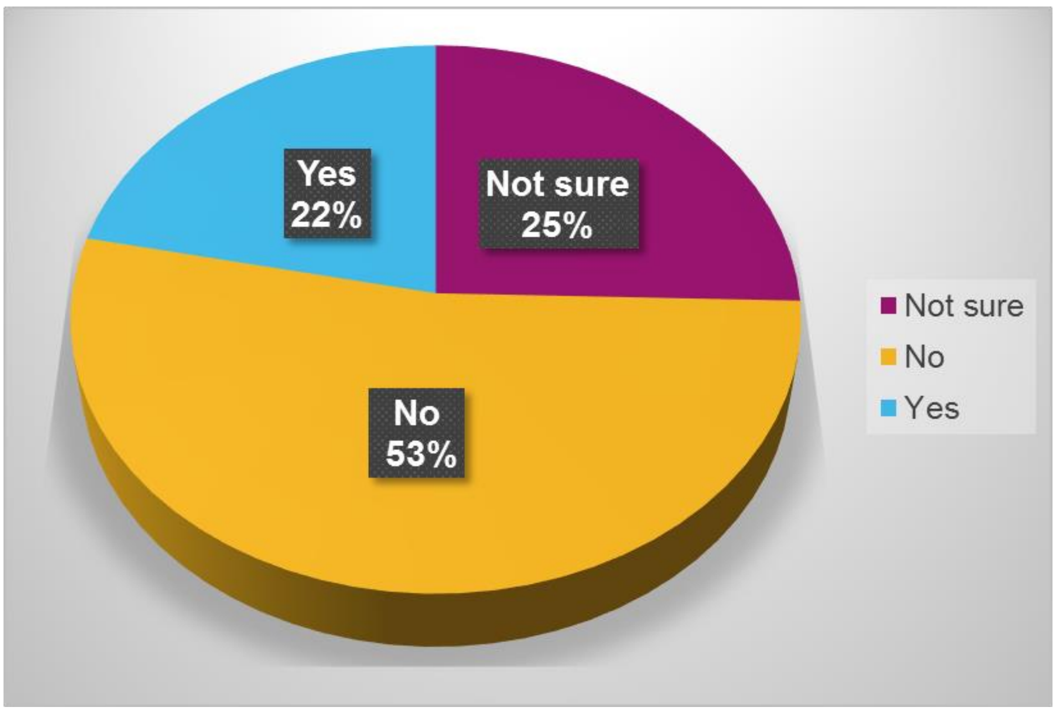
When asked about the complexity, their level of concern about the valuation and reporting of financial instruments, respondents provided the following respronses:

- 69 percent expect financial instruments to become more complex (57 percent slightly more complex, 12 percent substantially more complex.) over the next one to three years, compared with 1 percent who expect them to decrease in complexity.
- 55 percent said they are concerned about the valuation of derivatives with 6 percent reporting significant concern and 49 percent reporting slight or moderate concern.
- 56 percent said it would be easier to determine the value of complex financial instruments if they were measured and reported on a consistent and transparent basis.

Survey with the Survey – Financial Instruments (cont'd)

Majority think not enough awareness to prevent financial crisis

We also inquired about the level of awareness of these instruments since the difficulty in valuation is seen as a major cause of the financial crisis that lead to the recession of 2008. Regarding the level of awareness about financial instruments, 53 percent believe there is not enough market awareness of complex financial instruments to prevent a financial crisis, compared with only 22 percent who believe there is adequate awareness.



Survey Background

The survey was conducted of AICPA Business & Industry members between May 7-28, 2019 and had 785 qualified respondents.

CFOs comprised 44% of the respondents, 23% were Controllers, 11% were Presidents, CEOs, or other C-suite titles; 7% were VP/SVPs, 13% were accounting, audit, tax, technology directors or managers; the remainder were other executives.

Sixty four percent of respondents came from privately owned entities, 16% from publicly listed companies, and 16% from not-for-profits.

Thirteen percent came from organizations with annual revenues of $1 billion or more, 26% from organizations with $100 million to under $1 billion in annual revenues, 44% from organizations with $10 million to $100 million and 17% from organizations with under $10 million in revenues.