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.

The CPA Outlook Index (CPAOI) dropped to 38.

All index components down including U.S. Economic and Organization Optimism.

Expansion plans, revenue, and profit expectations all show massive drops.

A reading above 50 indicates a generally positive outlook with increasing activity.

A reading below 50 indicates a generally negative outlook with decreasing activity.
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:

<table>
<thead>
<tr>
<th>Component</th>
<th>2Q19</th>
<th>3Q19</th>
<th>4Q19</th>
<th>1Q20</th>
<th>2Q20</th>
<th>ΔQ to Q</th>
<th>ΔY to Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Economic Optimism</td>
<td>70</td>
<td>60</td>
<td>64</td>
<td>74</td>
<td>29</td>
<td>-45</td>
<td>-41</td>
</tr>
<tr>
<td>Organization Optimism</td>
<td>75</td>
<td>72</td>
<td>73</td>
<td>78</td>
<td>46</td>
<td>-32</td>
<td>-29</td>
</tr>
<tr>
<td>Expansion Plans</td>
<td>75</td>
<td>72</td>
<td>71</td>
<td>75</td>
<td>33</td>
<td>-42</td>
<td>-42</td>
</tr>
<tr>
<td>Revenue</td>
<td>81</td>
<td>76</td>
<td>76</td>
<td>81</td>
<td>27</td>
<td>-54</td>
<td>-54</td>
</tr>
<tr>
<td>Profits</td>
<td>72</td>
<td>70</td>
<td>71</td>
<td>73</td>
<td>26</td>
<td>-47</td>
<td>-46</td>
</tr>
<tr>
<td>Employment</td>
<td>71</td>
<td>68</td>
<td>70</td>
<td>71</td>
<td>38</td>
<td>-33</td>
<td>-33</td>
</tr>
<tr>
<td>IT Spending</td>
<td>80</td>
<td>80</td>
<td>80</td>
<td>81</td>
<td>59</td>
<td>-22</td>
<td>-21</td>
</tr>
<tr>
<td>Other Capital Spending</td>
<td>74</td>
<td>74</td>
<td>71</td>
<td>74</td>
<td>43</td>
<td>-31</td>
<td>-31</td>
</tr>
<tr>
<td>Training &amp; Development</td>
<td>73</td>
<td>72</td>
<td>72</td>
<td>73</td>
<td>45</td>
<td>-28</td>
<td>-28</td>
</tr>
<tr>
<td>Total CPAOI</td>
<td>75</td>
<td>72</td>
<td>72</td>
<td>76</td>
<td>38</td>
<td>-37</td>
<td>-36</td>
</tr>
</tbody>
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<table>
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<tr>
<th>Component</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Economy Optimism</td>
<td>Respondent optimism about the US economy</td>
</tr>
<tr>
<td>Organization Optimism</td>
<td>Respondent optimism about prospects for their own organization</td>
</tr>
<tr>
<td>Business Expansion</td>
<td>Respondent expectations of whether their business will expand over the next 12 months</td>
</tr>
<tr>
<td>Revenues</td>
<td>Expectations for revenue over the next 12 months</td>
</tr>
<tr>
<td>Profits</td>
<td>Expectations for profits over the next 12 months</td>
</tr>
<tr>
<td>Employment</td>
<td>Expectations for headcount over the next 12 months</td>
</tr>
<tr>
<td>IT Spending</td>
<td>Plans for IT spending over the next 12 months</td>
</tr>
<tr>
<td>Other Capital Spending</td>
<td>Plans for capital spending over the next 12 months</td>
</tr>
<tr>
<td>Training &amp; Development</td>
<td>Plans for spending on employee training and development over the next 12 months</td>
</tr>
</tbody>
</table>

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

**COVID-19 has significant negative impact on outlook for economy and business plans**

The percentage of CPA executives who are optimistic about the U.S. economy and their own organizations fell dramatically from our first quarter survey, which was only partially impacted by the onset of the coronavirus pandemic. As captured in our “survey-within-the survey”, summarized at the end of this report, 92% of our executives’ organizations have been negatively impacted by the COVID-19 pandemic.

Only 20% of our respondents to the second quarter survey expressed optimism about the U.S. Economy going forward over the coming twelve months. While a slightly higher percentage - 30%, are optimistic about their own organization’s prospects, only 24% indicate that they have plans to expand their business. On the other side of the equation, 48% see contraction going forward.

Pessimists obviously cite the COVID-19 disruption impact on the economy, consumer demand and government spending.

Optimists cite the possibility of pent-up demand from the shut-down, and lower energy costs, along with resilience and innovation of our economy.

![Outlook for the U.S. Economy, Organizations & Expansion](chart)

Concern about costs and prices is likely to be an evolving story. Overall, the concern about inflation increased slightly from 17% to 20%, while expectations for prices charged for products and services dropped from a projected increase of 2% in the first quarter to now only 0.2%.
There was also an increase in the level of concern about deflation from 7% to 18%, which is consistent with expectations for input prices easing from a projected increase of 2.3% to 1.4%.

Concern about labor costs as the highest-ranking inflation concern fell to only 29% of respondents, down from 46% in the first quarter. Raw material cost concerns ticked up to 28% and food costs as the most significant inflation concern jumped from only 1% in the first quarter, to now 12%. Interest rate concerns ticked up a point to 13%, and energy costs remained constant at 6%.

Key Performance Indicators

*Revenue and profit projections, and spending plans reflect impact of economic shut-down*

Revenues are now projected to drop 5% in the coming twelve months, down from a 4.3% expected increase looking forward from the first quarter. Profit expectations are expected to follow suit, falling off to -5.5%.

**Expectations for Revenue and Profits**

<table>
<thead>
<tr>
<th></th>
<th>2Q16</th>
<th>3Q16</th>
<th>4Q16</th>
<th>1Q17</th>
<th>2Q17</th>
<th>3Q17</th>
<th>4Q17</th>
<th>1Q18</th>
<th>2Q18</th>
<th>3Q18</th>
<th>4Q18</th>
<th>1Q19</th>
<th>2Q19</th>
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<th>4Q19</th>
<th>1Q20</th>
<th>2Q20</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>3.0%</td>
<td>2.9%</td>
<td>3.6%</td>
<td>4.3%</td>
<td>3.9%</td>
<td>4.3%</td>
<td>4.8%</td>
<td>5.0%</td>
<td>4.8%</td>
<td>5.0%</td>
<td>4.3%</td>
<td>4.4%</td>
<td>4.2%</td>
<td>3.5%</td>
<td>3.4%</td>
<td>4.3%</td>
<td>-5.0%</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>1.5%</td>
<td>2.3%</td>
<td>3.1%</td>
<td>3.5%</td>
<td>3.2%</td>
<td>3.5%</td>
<td>3.8%</td>
<td>4.4%</td>
<td>4.0%</td>
<td>4.3%</td>
<td>3.4%</td>
<td>3.6%</td>
<td>3.1%</td>
<td>2.8%</td>
<td>2.7%</td>
<td>3.3%</td>
<td>-5.5%</td>
</tr>
</tbody>
</table>

Reported spending plans for the upcoming twelve months also show cuts across the board. IT spending is the only category of projected spending increases, albeit at a meager 0.4%. down from a projected increase of 3.6% in the first quarter.

Other capital spending is now projected to decrease 2.0%. Training spend is also expected to decrease by 1.7%. Marketing spending plans are being cut 2.4%, and R&D spending also being cut, expected to decline 1.6.
Hiring Plans

Employment picture bleak with a quarter of companies indicating excess employees

In this quarter, while 51% of all companies say they have the appropriate number of employees, 25% are currently stating that they have an excess of employees. So, with respect to the record numbers of unemployment claims, it looks as though there may be more to come.

On the other side of the equation, while 20% of our respondents did indicate they had too few employees, only 7% are planning to hire in the near future, while 13% are hesitating because of current conditions.

Staffing Relative to Needs

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

- Of employers with revenues < $10 million, 58% have the right number of employees, 20% have excess; of the 18% with too few, 8% are planning to hire, 10% are hesitant.
- For employers with > $1 billion in revenues, 23% now have excess employees, while 30% have too few. Of those with too few employees, only 7% are planning to hire, while 23% remain hesitant.
- Of those in the $100 million to $1 billion category, 19% say they have too few employees; 6% are hiring; while 13% are hesitant.
- In the $10 - $100 million range, only 20% now have too few employees, down from 42% in the first quarter; of those with too few, only 8% have plans to hire; 12% are hesitant.
Industry, Region and Business Size Outlook

*Optimism drops sharply in all sectors; hospitality and retail, along with natural resources and transportation, expect biggest declines in employment*

While we have not traditionally reported on the optimism of Hospitality and Food Services, which includes travel and leisure segments, this sector is clearly one that has been hit hard by the shut-down. These executives are projecting a further decline in employment of -5.3% in the coming year. Similarly, executives in the Mining, Natural Resources and Oil and Gas sector are projecting a decline in employment of -3.9%, as price turmoil has compounded the effect of the shut-down on their sector.

Retail trade optimism dropped from 57% to 29% optimistic and expectations for retail employment are expected to decline at a rate of -4.1% for the coming twelve months, vs. a 1.9% expected increase in Q1.

Manufacturing optimism declined from 59% to only 31% optimistic. Similarly, manufacturing employment is also expected to decrease at a rate of -2.0%. Construction which had rebounded to 83% optimistic in the first quarter dropped to only 29%, accompanied by a projected decline in employment of -1.3%, versus an expected increase of 3.5% in the first quarter.

As noted above, while IT spending plans continue to be on the plus side, this sector plummeted from 76% to 35% optimistic. Employment in the IT sector is expected to decrease by -1.0%.

The outlook for Finance and Insurance fell from 74% to only 40% optimistic; professional services optimism also declined sharply from 68% to only 27%. Professional services employment is also expected to decline by -2.1%.

Both Healthcare provider and Healthcare-other optimism declined sharply. Healthcare-other employment is the only sector currently projecting to increase employment in the coming year.
Industry, Region and Business Size Outlook (cont’d)

Optimism in South slightly higher than other regions

In terms of regional perspective, optimism about the prospects for our executives’ organizations in the Northeast dropped to only 26%. The Midwest showed the biggest drop in optimism of 40 points to only 27% now being optimistic. Optimism in the West is only slightly higher at 30%, while the South comes in at 34%.

Expansion Plans by Business Size

Expansion plans across business size all show significant declines, from nearly two-thirds of businesses in all categories having plans to expand this year, to now only a quarter having expansion plans.

Last quarter only 2% of companies expected to contract their business a lot, and 12% expected to contract a little. This quarter nearly 23% expect to contract a lot, and another 25% expect to contract a little.
Top Challenges

*Domestic and global economic conditions, along with liquidity concerns top the list*

- Domestic economic conditions move up 3 spots to #1 challenge
- Stagnant/declining markets following at #2
- Liquidity, last seen in top ten in 2Q16, now at #3
- Global economic conditions jump 5 spots to #4
- Regulatory requirements maintain #5 spot
- Domestic political leadership drops 2 spots to #6
- Financing (access/cost of capital) returns from 1Q19 to #7
- Availability of skilled personnel drops from #1 spot to 8th place
- Employee and benefit costs drop 2 down to #9
- Changing customer preferences comes in at #10

### Top Challenges Facing Organizations

<table>
<thead>
<tr>
<th></th>
<th>2Q19</th>
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<th>1Q20</th>
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</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Availability of skilled personnel</td>
<td>Availability of skilled personnel</td>
<td>Availability of skilled personnel</td>
<td>Availability of skilled personnel</td>
<td>Domestic economic conditions</td>
</tr>
<tr>
<td>2</td>
<td>Employee and benefits costs</td>
<td>Domestic economic conditions</td>
<td>Domestic economic conditions</td>
<td>Domestic competition</td>
<td>Stagnant/declining markets</td>
</tr>
<tr>
<td>3</td>
<td>Domestic competition</td>
<td>Domestic political leadership</td>
<td>Domestic competition</td>
<td>Domestic economic conditions</td>
<td>Liquidity</td>
</tr>
<tr>
<td>4</td>
<td>Regulatory requirements/changes</td>
<td>Domestic competition</td>
<td>Employee and benefits costs</td>
<td>Domestic political leadership</td>
<td>Global economic conditions</td>
</tr>
<tr>
<td>5</td>
<td>Staff Turnover</td>
<td>Employee and benefits costs</td>
<td>Regulatory requirements/changes</td>
<td>Regulatory requirements/changes</td>
<td>Regulatory requirements/changes</td>
</tr>
<tr>
<td>6</td>
<td>Domestic economic conditions</td>
<td>Regulatory requirements/changes</td>
<td>Domestic political leadership</td>
<td>Employee and benefits costs</td>
<td>Domestic political leadership</td>
</tr>
<tr>
<td>7</td>
<td>Materials/supplies/equipment costs</td>
<td>Staff Turnover</td>
<td>Staff Turnover</td>
<td>Developing new products/services in markets</td>
<td>Financing (access/cost of capital)</td>
</tr>
<tr>
<td>8</td>
<td>Domestic political leadership</td>
<td>Stagnant/declining markets</td>
<td>Developing new products/services in markets</td>
<td>Staff Turnover</td>
<td>Availability of skilled personnel</td>
</tr>
<tr>
<td>9</td>
<td>Developing new products/services in markets</td>
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<td>Global economic conditions</td>
<td>Employee and benefits costs</td>
</tr>
<tr>
<td>10</td>
<td>Changing customer preferences</td>
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<td>Materials/supplies/equipment costs</td>
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</tr>
</tbody>
</table>
Survey within the Survey

Coronavirus impacts and responses

As noted, our first quarter survey-within-the-survey asked some questions about concerns and impact of the coronavirus which, at that time of initial launch, were primarily limited to business supply chains and markets. Our final first quarter survey reminder on February 25 captured some of the impact of the more widespread pandemic. These results were presented in our first quarter survey report and shown below, along with the clearly widespread impact since that time.

Impact of Covid-19 on Business

- Significant negative impact: 1% (Q1 All), 1% (Q1 Late), 32% (Q2)
- Moderate negative impact: 4% (Q1 All), 12% (Q1 Late), 32% (Q2)
- Slight negative impact: 17% (Q1 All), 25% (Q1 Late), 28% (Q2)
- No impact: 3% (Q1 All), 56% (Q1 Late), 73% (Q2)
- Positive impact: 2% (Q1 All), 5% (Q1 Late)
- Not sure: 4% (Q1 All), 5% (Q1 Late)

Profit and Sales Outlook

At the time of our first quarter report, less than 8% of respondents had made downward adjustments to their forecasts; 51% indicated they were keeping an eye on the situation, and 42% did not expect that they would need to make downward adjustments.

As is also captured by the results of the overall survey, when asked the same question this quarter, 81% of business executives have made downward adjustments and only 2% do not expect the need to.
Survey within the Survey (cont’d)

Coronavirus impacts and responses

Company Operations

When asked about the status of their business operations,

- 44% - operating in compliance with the stay-at-home restrictions
- 36% - conducting business as usual, with certain modifications or provisions
- 13% - conducting business on a limited basis
- 5% - shut down because of stay-at-home restrictions
- 2% - have had their business increase

Workforce Impacts

With respect to workforce impacts, 61% said they had maintained their current employment level and pay structure, while 38% have furloughed employees or imposed layoffs, and another 30% have had leadership and/or employee compensation and benefits cuts.

Pandemic-related impacts to workforce

- We’ve maintained our current employment level and pay: 61%
- We’ve furloughed employees: 20%
- We’ve imposed layoffs: 18%
- Senior leadership has taken a pay cut: 17%
- We’ve cut pay for employees by a specific percentage: 13%
- We’ve trimmed benefits (such as employer 401k contribution): 7%
- We’ve taken other steps (please specify): 15%
- We haven’t taken any steps yet but are anticipating the need to do so: 8%

Note: Percentages > 100% as respondents were asked to check all that apply.
Survey within the Survey (cont’d)

Coronavirus impacts and responses

Other steps taken in the workforce arena include the following:

• Reduction in force for indirect and support areas
• Reduced hours, OT hours, 4-day workweeks
• Merit increases, bonuses, profit-sharing eliminated
• Salary freeze, hiring freeze
• Eliminated contractors, offered early retirement
• Bonuses, hazard pay, premium pay, thank you bonus, stay bonus
• Product offerings revised
• Safety measures at factories
• Changes to production lines, processes

COVID-19 Pandemic – Government Relief

We also asked our executives whether they had applied for government relief due to the impact of the COVID-19 Pandemic.

• 56% have applied for relief under the Paycheck Protection Program (PPP)
• 35% indicated they had not applied for any relief
• 23% have also applied for Economic Injury Disaster Loan (EIDL) relief, other SBA loan programs, sector bailout funds, emergency tax credit, a low interest borrowing facility, or other relief programs.

Other relief programs noted by our respondents included:

• HHS provider relief funds
• Advance Medicare Payments
• Family First Programs and Shared Work with State Unemployment
• Employer payroll tax deferral and employee retention credit.
• Bank deferred loan payments
• Main Street Loan Program
• Federal Reserve Paycheck Protection Program Liquidity Facility (PPPLF)
• Nonprofit Grants supporting ARTS
Greatest Concern

When asked about their greatest concern about the COVID-19 Pandemic today, customer demand and their ability to pay, along with the safety and well-being of employees topped the list.

Other concerns noted included:

- Second wave of outbreaks, future consequences
- Impact of travel restrictions on business
- Market and economic dislocation
- Government intervention, regulatory environment
- Legal liability mitigation
Survey Background

The survey was conducted of AICPA Business & Industry members between May 5 - 27, 2020 and had 1198 qualified respondents.

CFOs comprised 43% of the respondents, 18% were Controllers, 16% were Presidents, CEOs, or other C-suite titles; 9% were VP/SVPs, 14% were accounting, audit, tax, technology directors or managers; the remainder were other executives.

Sixty seven percent of respondents came from privately owned entities, 13% from publicly listed companies, and 17% from not-for-profits.

Eleven 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, 44% from organizations with $10 million to $100 million and 25% from organizations with under $10 million in revenues.