



Association  
of International  
Certified Professional  
Accountants®

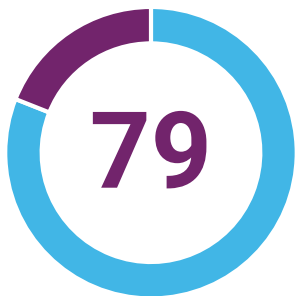
# AICPA Business and Industry Economic Outlook Survey

Detailed Survey Results: 3Q 2018

# Survey Background

- Conducted between July 31-August 22, 2018
- Quarterly Survey
- CPA decision makers (primarily CFO's, CEOs and Controllers)
- AICPA members in Business & Industry only
- 1242 qualified responses

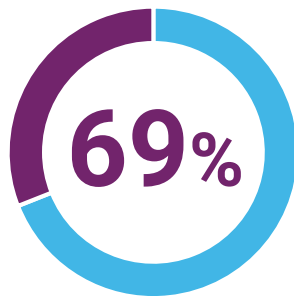
# Survey Highlights



Overall index maintains 3Q level

CPAOI still above Q4 2014 peak of 78

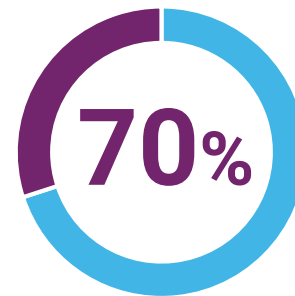
Employment plans add another point



Optimism about U.S. Economy eases 5 points

Manufacturing, finance & insurance and professional services continue strength

Wholesale trade, construction and technology show easing



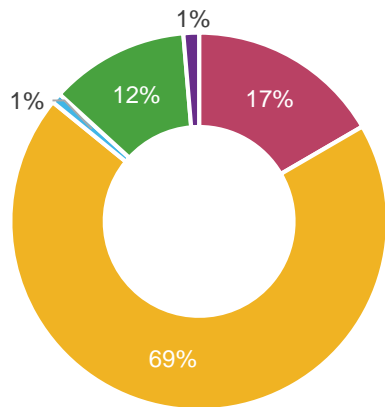
Expansion and employment plans reflect continued strength

Overall, expansion plans remain constant at 70%

Employment plans remain strong across most size and sector

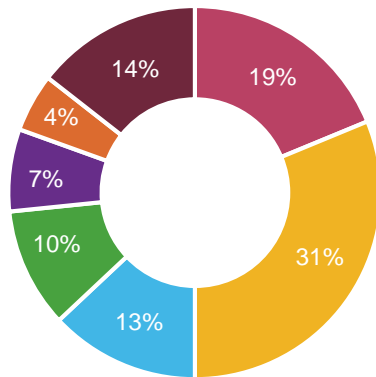
# Demographics

## Type of Organization



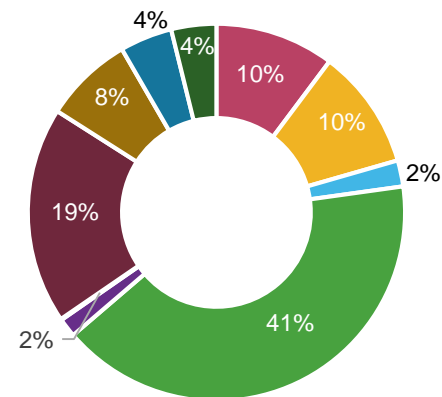
- Publicly Listed Company
- Privately Owned Entity
- Government
- Not for Profit
- Other

## Size of Organization



- \$0 to under \$10 million
- \$10 million to under \$50 million
- \$50 million to under \$100 million
- \$100 million to under \$250 million
- \$250 million to under \$500 million
- \$500 million to under \$1 billion
- \$1 billion or more

## Position



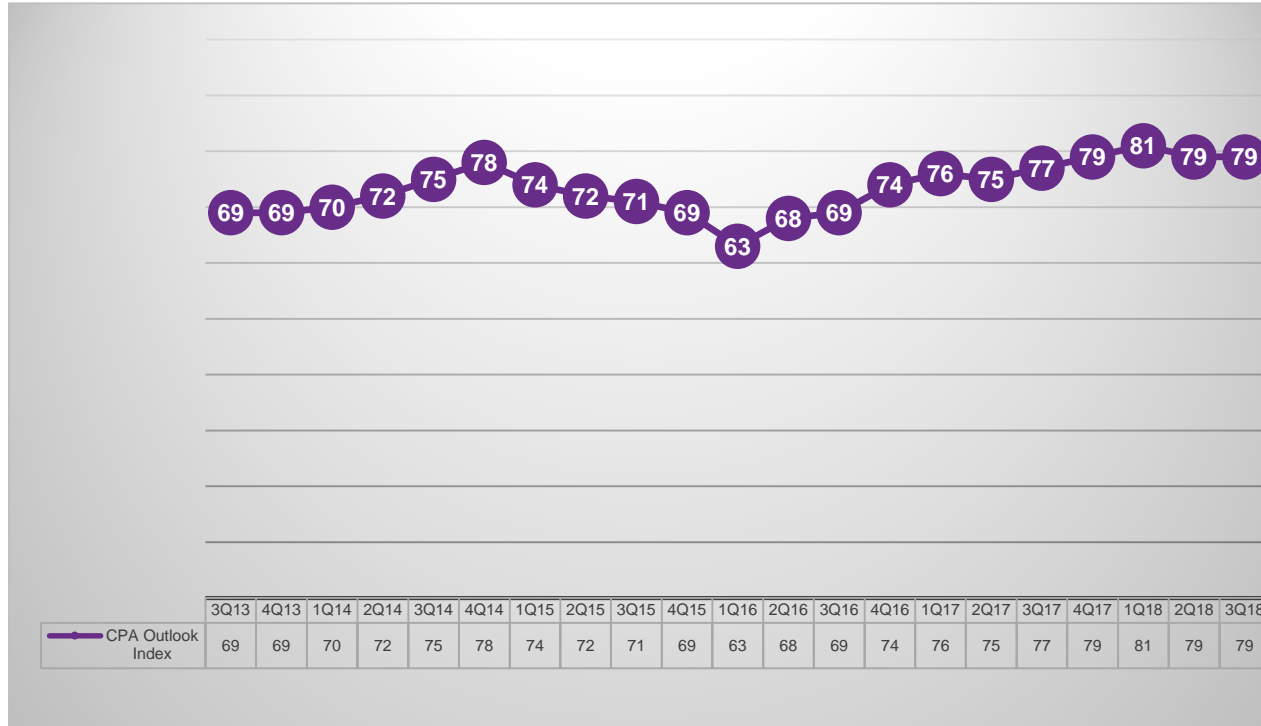
- CEO/President
- VP/SVP
- COO
- CFO
- CAO/CAE
- CIO/CTO/KMO
- Controller
- Director
- Accounting, Audit, Tax or Technology Manager
- Other

# CPA Outlook Index (CPAOI)

- 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

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.

# CPA Outlook Index (CPAOI)



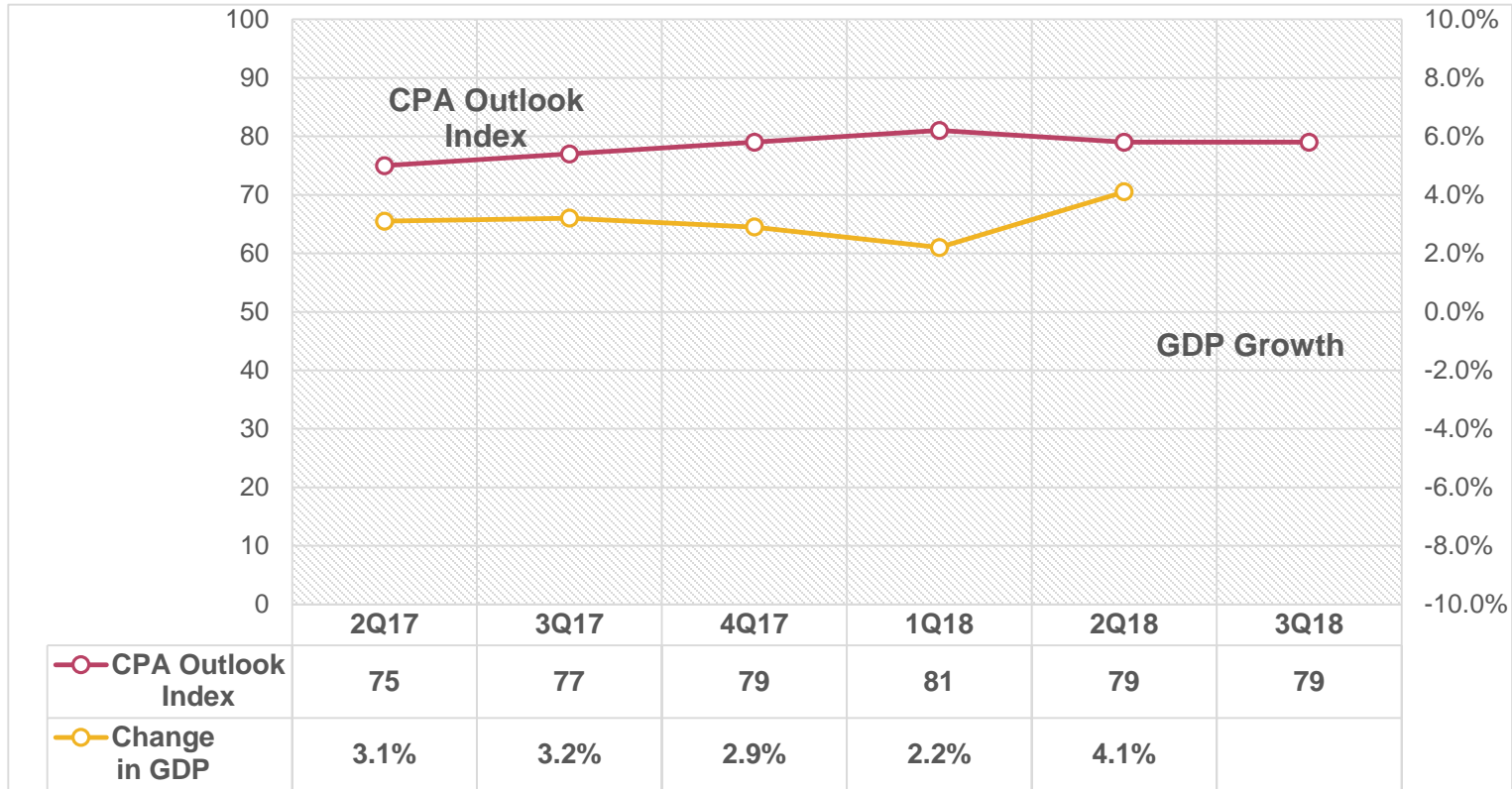
A reading above 50 indicates a generally positive outlook with increasing activity.

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

# CPA Outlook Index (CPAOI)

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

# CPA Outlook Index (CPAOI) vs. GDP





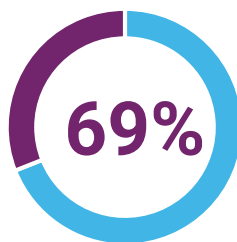
# U.S. Economy, Organization and Inflation



## Optimism for U.S. economy gives back 5 points

Optimists cite tax reform and regulatory relief, along with general strength of many economic indicators

Pessimists cite concerns about the impact of tariffs and trade war, interest rates and yield curve, along with political divisiveness.

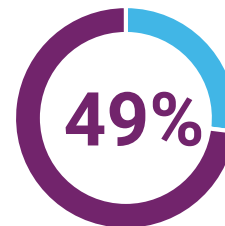


## Organization optimism eases a point

Optimism for respondent's own organization eases another point from 70% to 69% optimistic

Expansion plans constant at 70%

The percentage of companies expecting their businesses to contract also remained constant at 9%



## Concern about inflation by 49% remains constant

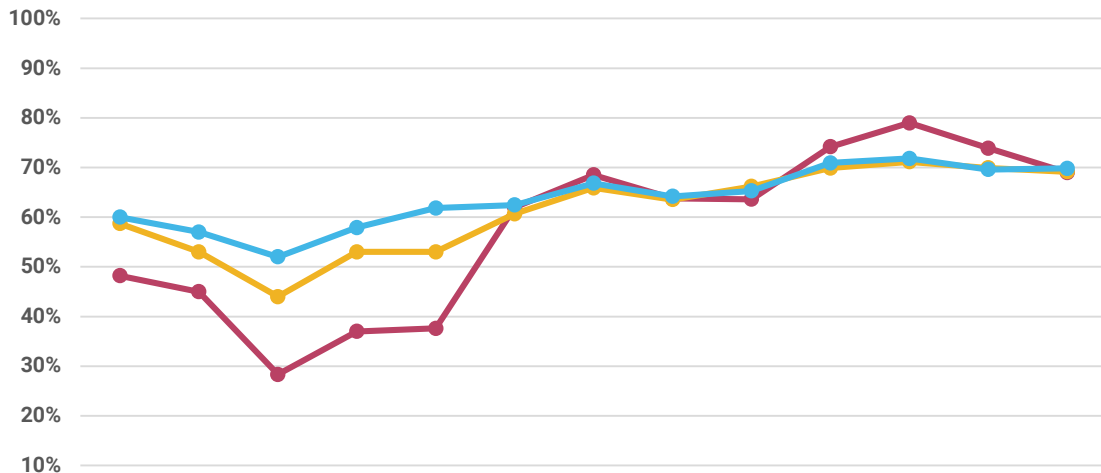
Concern about labor costs continues to be most significant at 36%

Raw materials cost concerns increased from 31% to 32%

Interest rate concerns increased from 18% to 20%

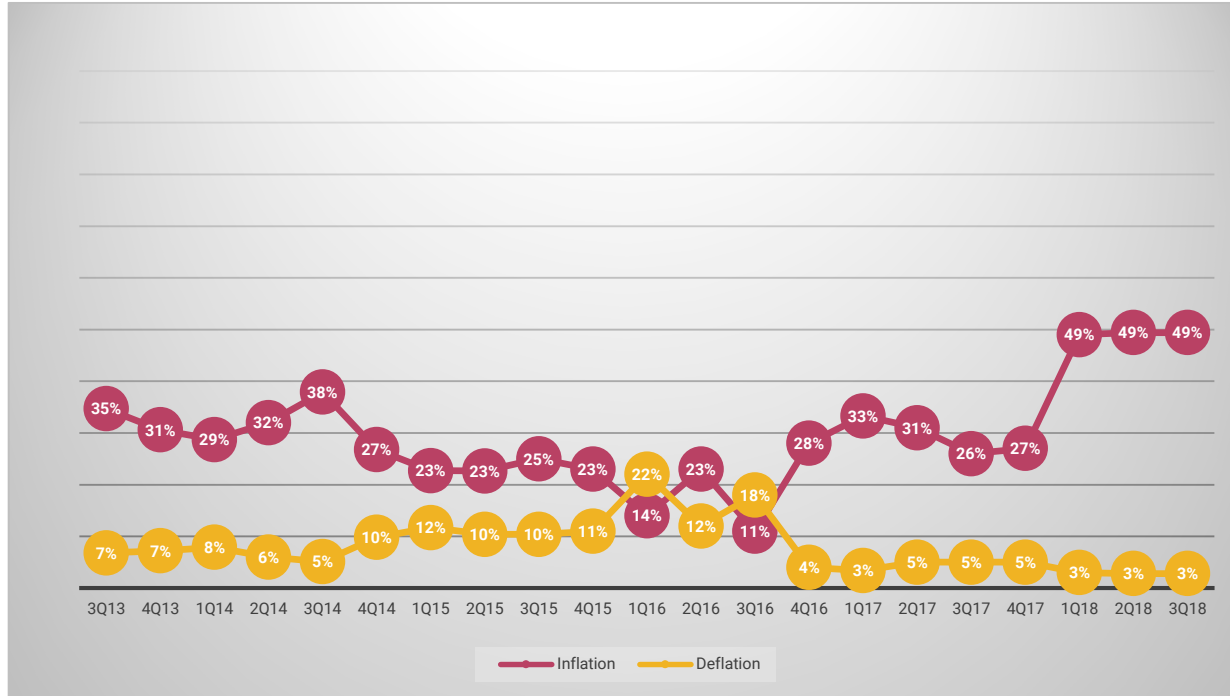
Energy cost concerns eased a point to 6%

# Optimism & Expansion



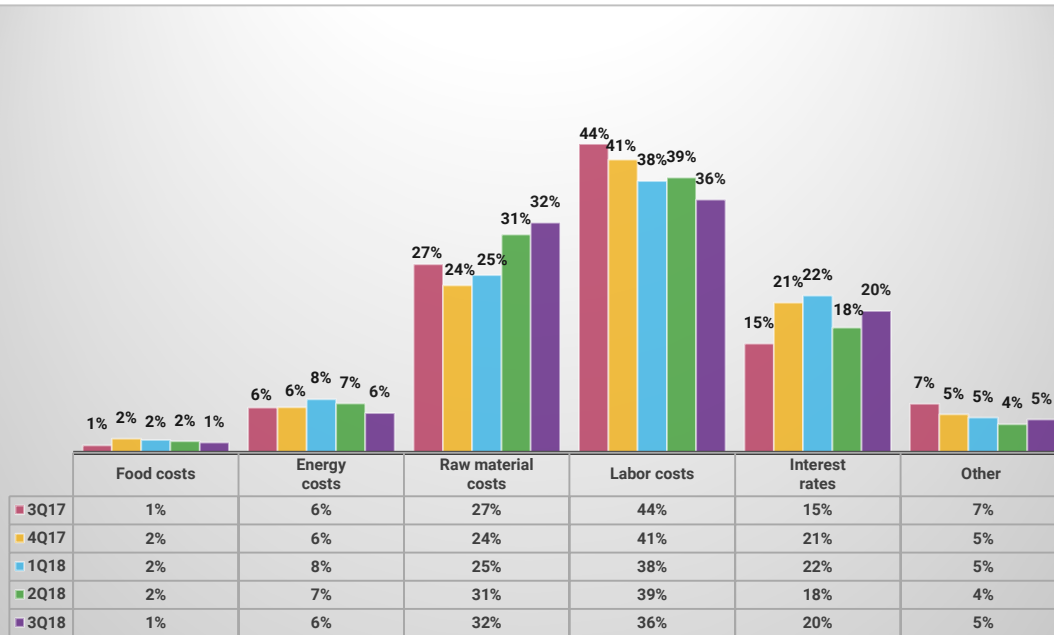
The economic outlook for the U.S. economy, your organization, and the expansion plans over the next 12 months

# Inflation or Deflation



For your business, over the next 6 months, which are you more concerned about? Inflation or deflation?

# Inflationary Risk Factors



Which of the following potential inflationary factors represents the most significant risk to your business?

# Key Performance Indicators

## Revenues and Profits

Revenue and Profit projections both recover 2Q givebacks

Expected revenue increase for coming twelve months recover 2 tenths, back to Q1 high of 5%

Profit projections recover 3 tenths to 4.3%; down only a tenth from Q1 high of 4.4%

## Hiring and Employment

Headcount plans hit new post-recession high; healthcare cost projections ease slightly

Anticipated rate of headcount increase for the coming year improved to a new post-recession high rate of 2.3%

Salary and benefit costs remained constant at a rate of 2.8%,

Healthcare cost projections ease two points to 5.7% after jumping three tenths to 5.9% in Q2

## Spending Plans

Spending plans ease slightly, but continue to be strong

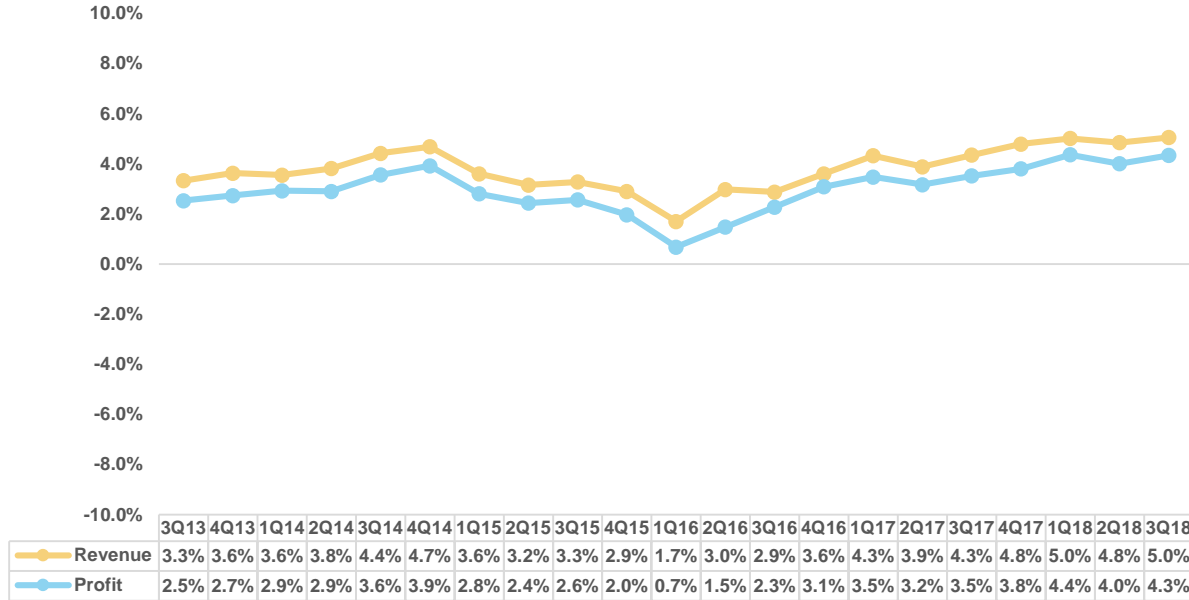
Expected rate for IT spending, other capital and training all give up a tenth from Q2 levels of anticipated spending

Marketing spending plans remain constant at 1.9%

R&D spending plans ease two tenths from Q2 post-recession high of 2.2%

# Key Performance Indicators

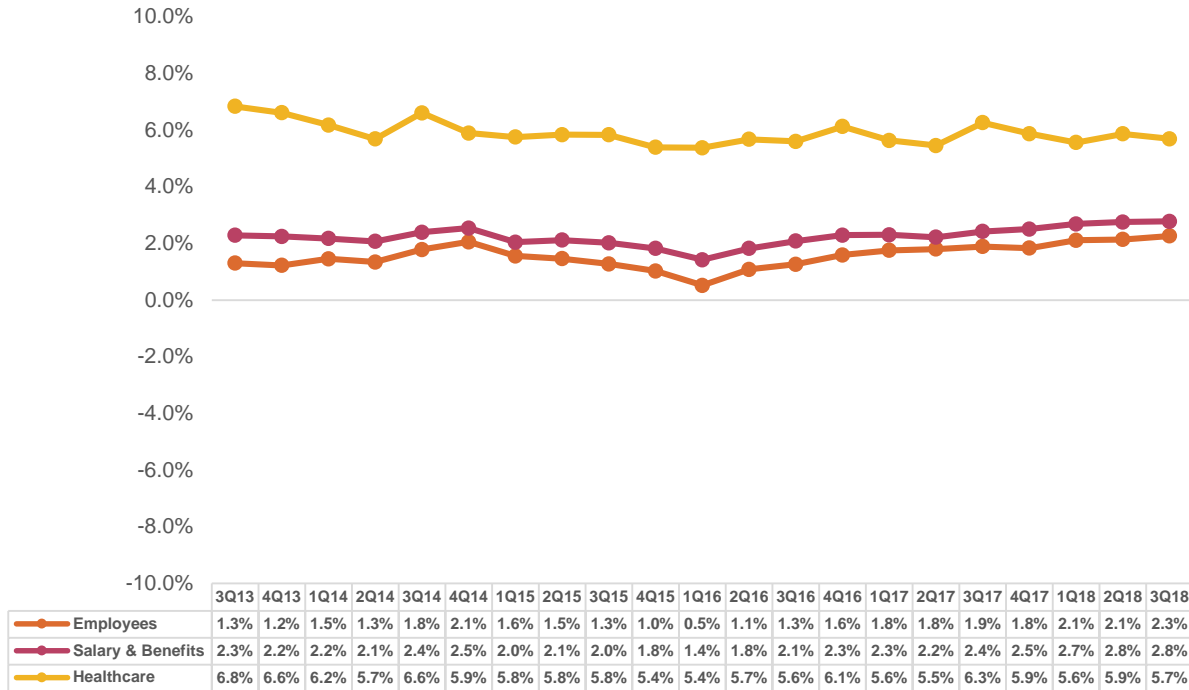
## Expected Growth in Revenue and Profits



Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators: please select one growth rate for each item, from increasing by more than 10% to decreasing by more than 10%....

# Key Performance Indicators

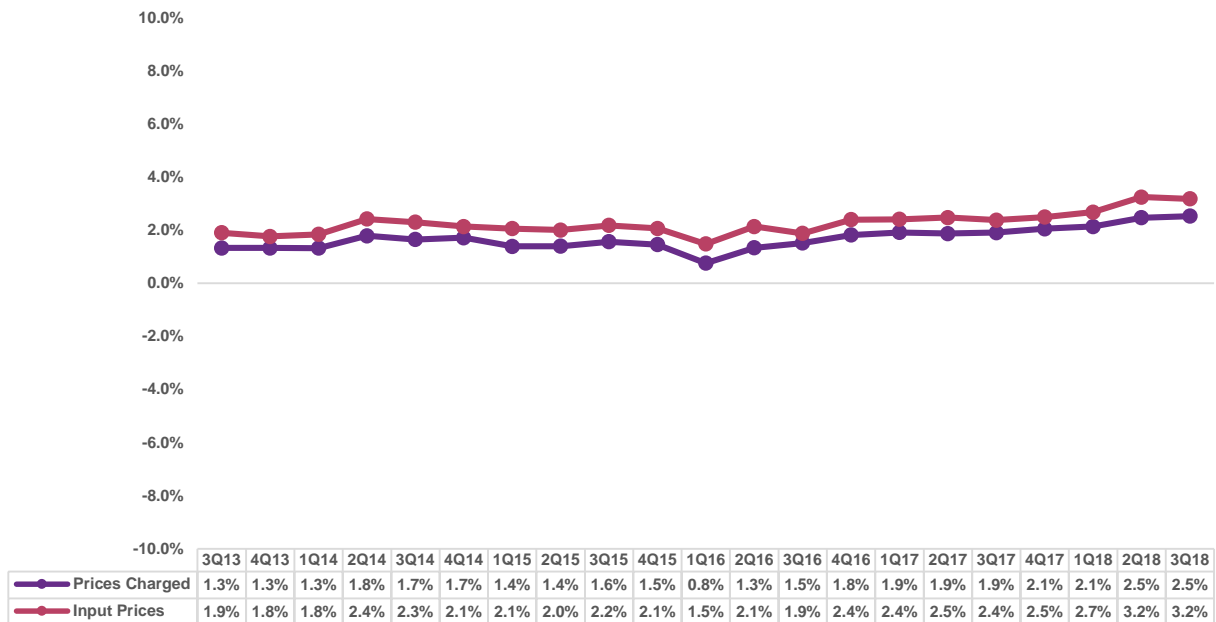
## Employees, Salary & Benefits, and Healthcare Costs



Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators: please select one growth rate for each item, from increasing by more than 8% to decreasing by more than 8%....

# Key Performance Indicators

## Pricing & Other Costs Average Change Expected

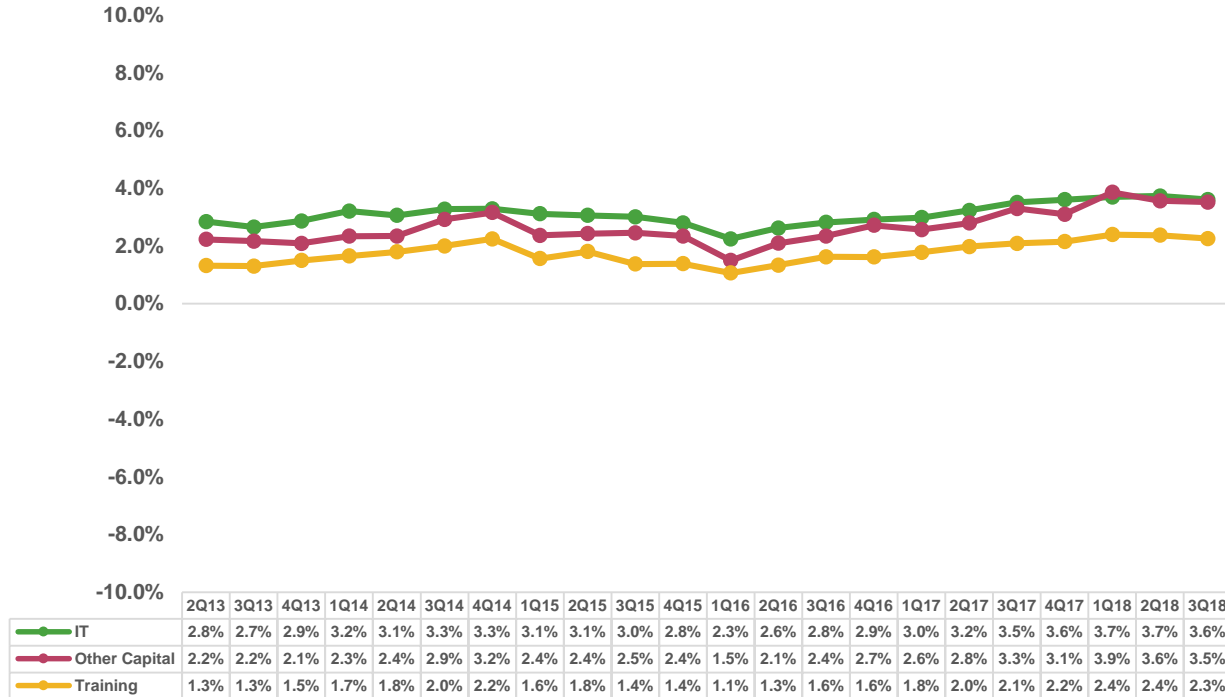


Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators: please select one growth rate for each item, from increasing by more than 8% to decreasing by more than 8%....



# Key Performance Indicators

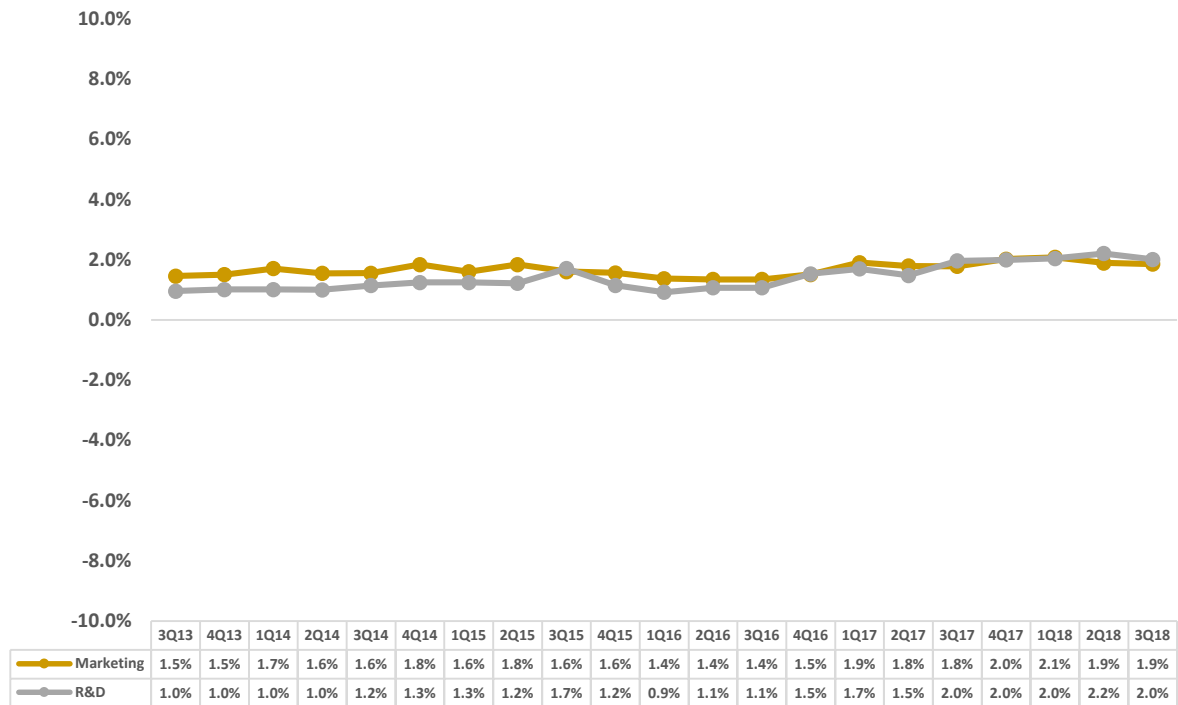
## Spending Plans - IT, Other Capital & Training



Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators: please select one growth rate for each item, from increasing by more than 10% to decreasing by more than 10%....

# Key Performance Indicators

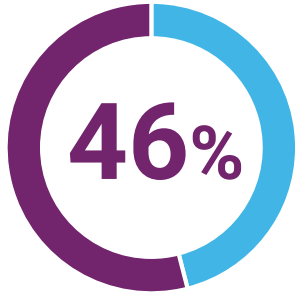
## Spending Plans Marketing & R&D



Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators: please select one growth rate for each item, from increasing by more than 10% to decreasing by more than 10%....

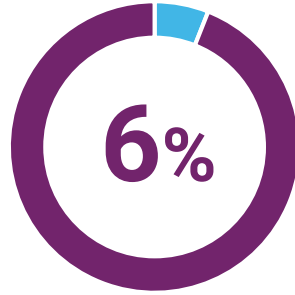
# Hiring Plans

## Continue to Improve



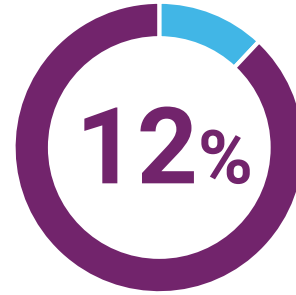
Have right number of employees

Down 2 points from Q2, 2018



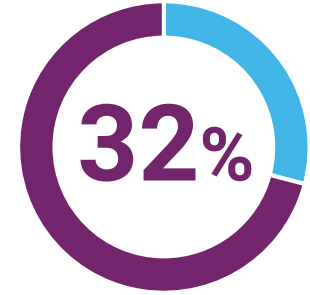
Have an excess of employees

Up 1 point from Q2, 2018



Have too few, but hesitating to hire

Down another point from Q2; at post-recession low

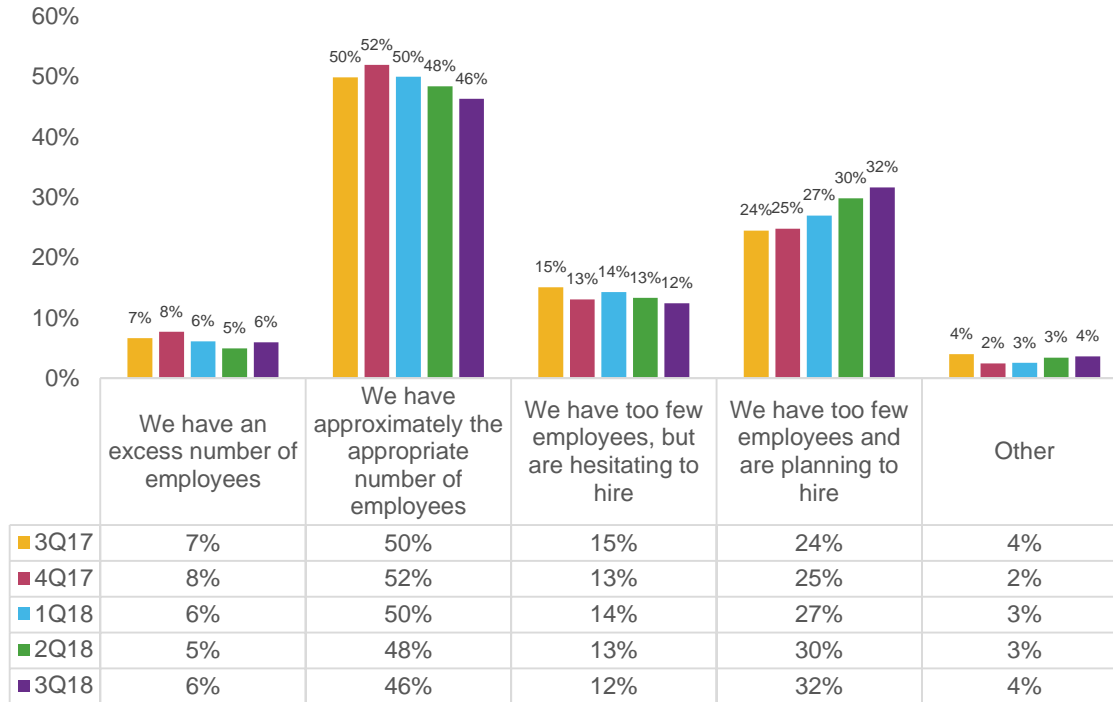


Have too few and planning to hire

Up another 2 points from Q2; at post-recession high

# Hiring Plans

## 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 Facing Organizations

- Availability of skilled personnel continues as the top challenge
- Regulatory requirements also maintains its second place spot
- Domestic competition moves up from 4<sup>th</sup> to 3<sup>rd</sup>, switching places with employee and benefit costs
- Materials/supplies/equipment costs maintains its 5th place ranking after jumping from the 10th spot in Q2
- Developing new products/services/markets, rose to 6<sup>th</sup> place in Q3 after falling to 9<sup>th</sup> place in Q2
- Staff turnover maintains its top ten ranking at #7
- Domestic economic conditions eased from #6 to #8, while domestic political leadership moved up from 10<sup>th</sup> to 9<sup>th</sup> place
- Financing (access/cost of capital) returned to the top ten ranking this quarter in the 10<sup>th</sup> spot

Please  
indicate the  
top three  
challenges  
for your  
organization

# Top Challenges

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

# Industry, Region and Business-size Outlook

1 of 3

Retail trade constant; wholesale trade gives back gains

**Retail trade** optimism maintains Q2 optimism at 61%

**Wholesale trade** falls off from 76% in Q2 to only 63% optimistic in Q3

Hiring for retail is expected to improve to a rate of 2.8%, up from only 2.2% in Q2, 2018

Manufacturing at new high; slight easing in Construction

**Manufacturing** optimism hits post-recession high of 78% optimistic

**Construction** gives back some gains, easing to 69% optimistic, down from 76% in Q2, 2018 and 80% in Q4, 2017

Manufacturing hiring improved to an expected rate of 3.8%, up from a 3.1% expected increase in Q2

Construction hiring also improved from 3.3% in Q2, to 3.5% in Q3

Real estate eases; Professional services improves

**Real Estate and Property** also gave back its gains, falling to only 66% optimistic in Q3, down from 78% in Q2

**Professional service** optimism continued its rebound, improving another two points to 84% optimistic

Real Estate hiring expectations fell off from 3.2% in Q2, to only 2.6% in Q3

Professional services hiring plans remained constant in Q3 at 2.7%

Technology eases; Finance & Insurance regains strength in optimism

**Technology** optimism continued its decline from a high of 80% optimistic in Q1 to only 60% optimistic in Q3

Technology sector planned hiring also declined further from 2.1% in Q2, to 1.9% in Q3

**Finance and Insurance** optimism recovered its Q2 decline, improving to 78% optimistic in Q3

Finance and insurance hiring improved from 1.8% to 2.5%

Healthcare providers recover lost optimism  
Healthcare – others falls off

**Healthcare provider** optimism also rebounded to 61% optimistic after falling off sharply in Q2

Expected hiring by Healthcare providers eased from 2.2% in the second quarter to 1.9% in the third quarter.

**Healthcare – other** optimism fell sharply to only 67% optimistic in Q3, down from 88% optimistic in Q2



# Industry, Region and Business-size Outlook

3 of 3

Regional optimism evens out

**Midwest** – optimism improved from 70% in Q2 to 73% in Q3

**West** – optimism fell off further to 65%, down from 75% in Q1

**South** – gives back 5%, falling from 74% to only 69% optimistic in Q3

**Northeast** – recovers strongly to 69% optimistic, up from only 59% in Q2

Employment projections by business size and expansion plans by size also reflecting level of optimism

---

For employers with > \$1 billion in revenues, only 8% now have excess employees, while 42% have too few. Of those with too few employees, only 14% remain hesitant while 28% are planning to hire.

Of those in the \$100 million to \$1 billion category, 46% now say they have too few employees and 37% are hiring; only 9% are hesitant.

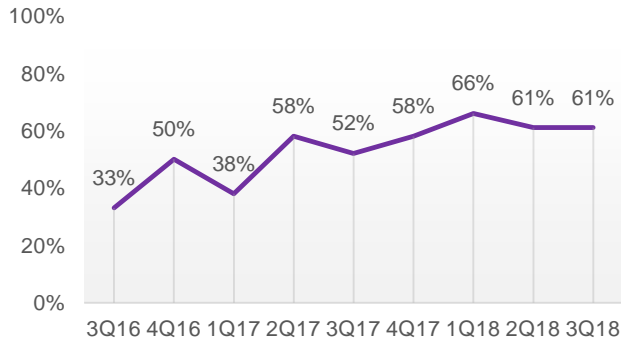
In the \$10 - \$100 million range, 46% now have too few employees; of those with too few, 35% have plans to hire; only 10% are hesitant

Of employers with revenues < \$10 million 40% have too few employees, up from 33% in Q1; 21% are planning to hire; 19% are hesitant.

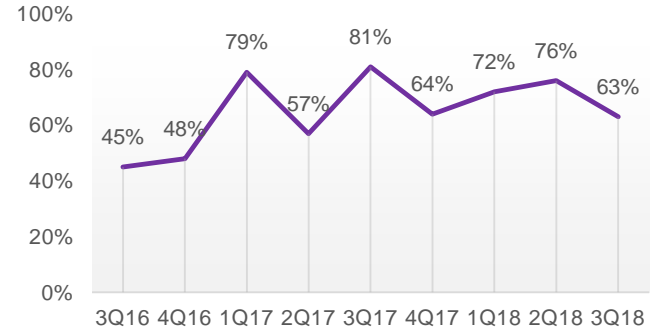
Expectations for expansion by businesses with revenues < \$10 million improved a point to 63%. Plans for companies in the \$10 - \$100 million category also improved a point to 70%. Companies in the \$100 million to \$1 billion range improved from 71% to 73%; those with revenues in excess of \$1 billion fell from 78% to 74%.

# Organization Optimism by Industry

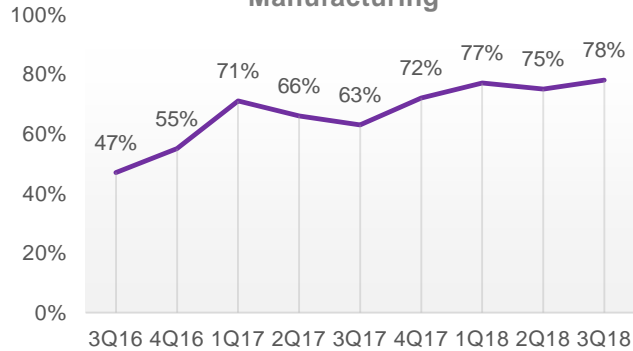
## Retail Trade



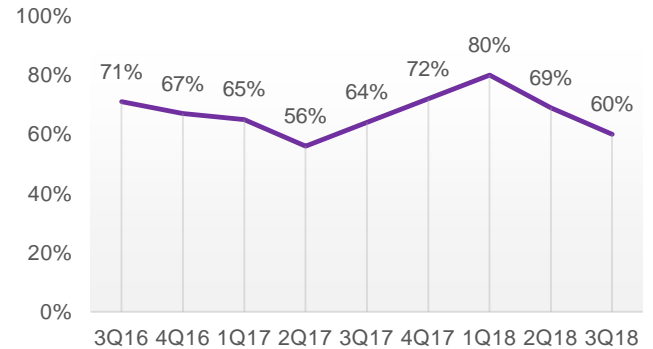
## Wholesale Trade



## Manufacturing

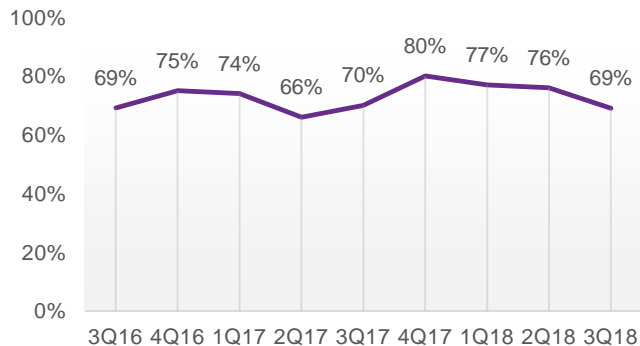


## Technology

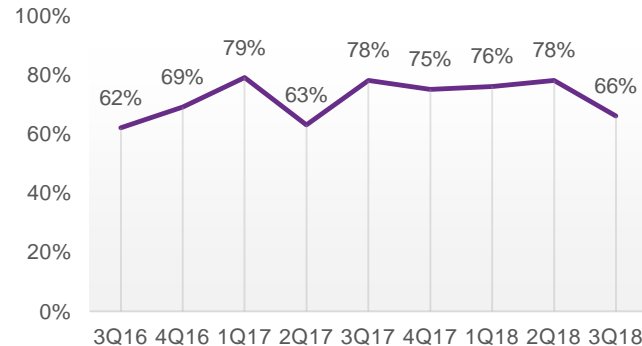


# Organization Optimism by Industry

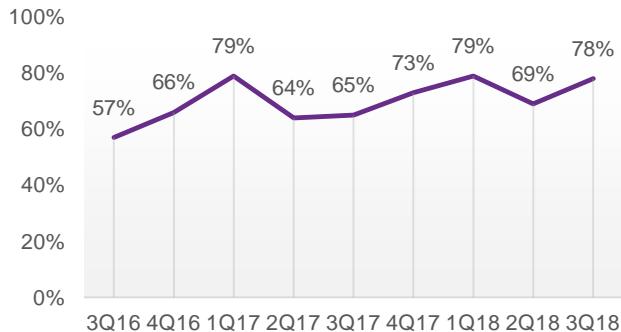
### Construction



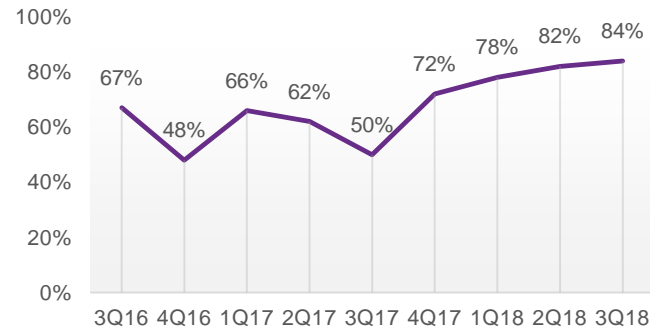
### Real Estate



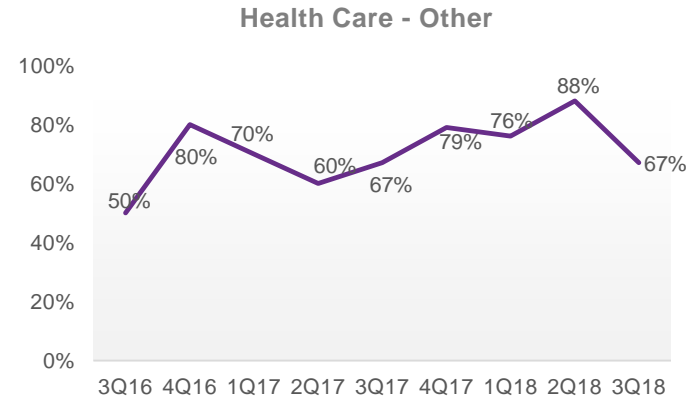
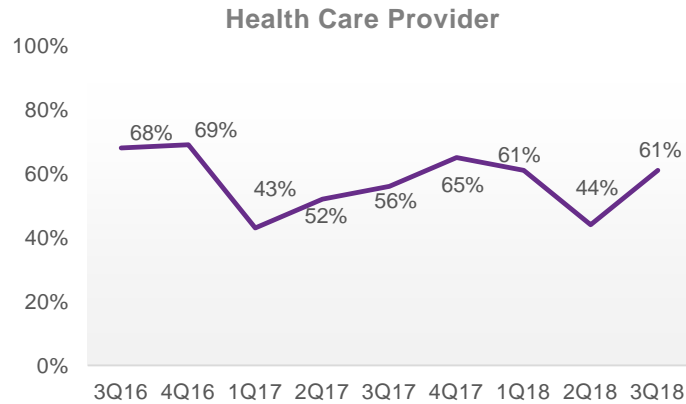
### Finance & Insurance



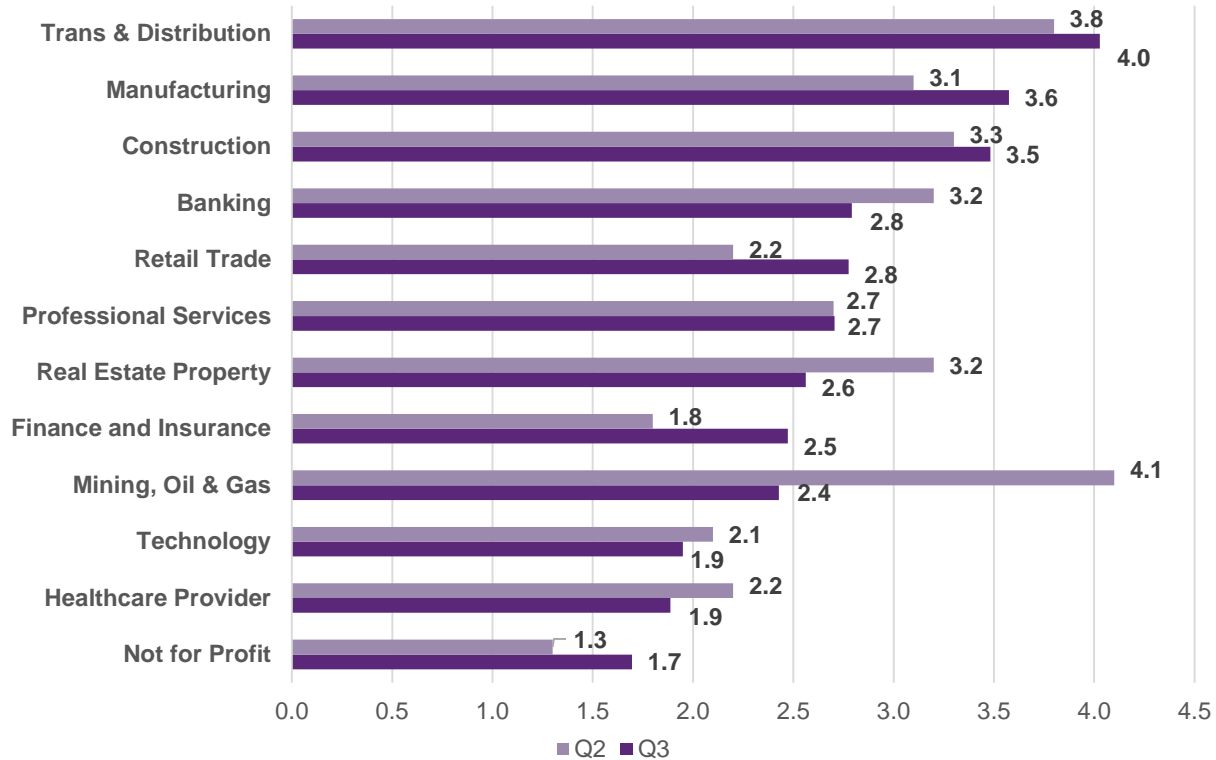
### Professional Service



# Organization Optimism by Industry

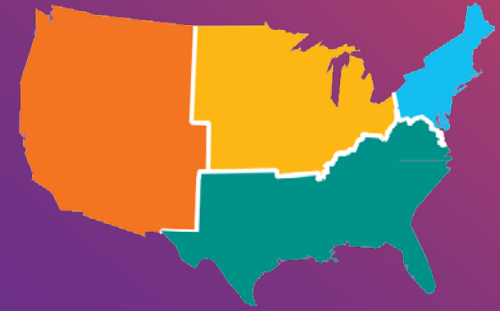
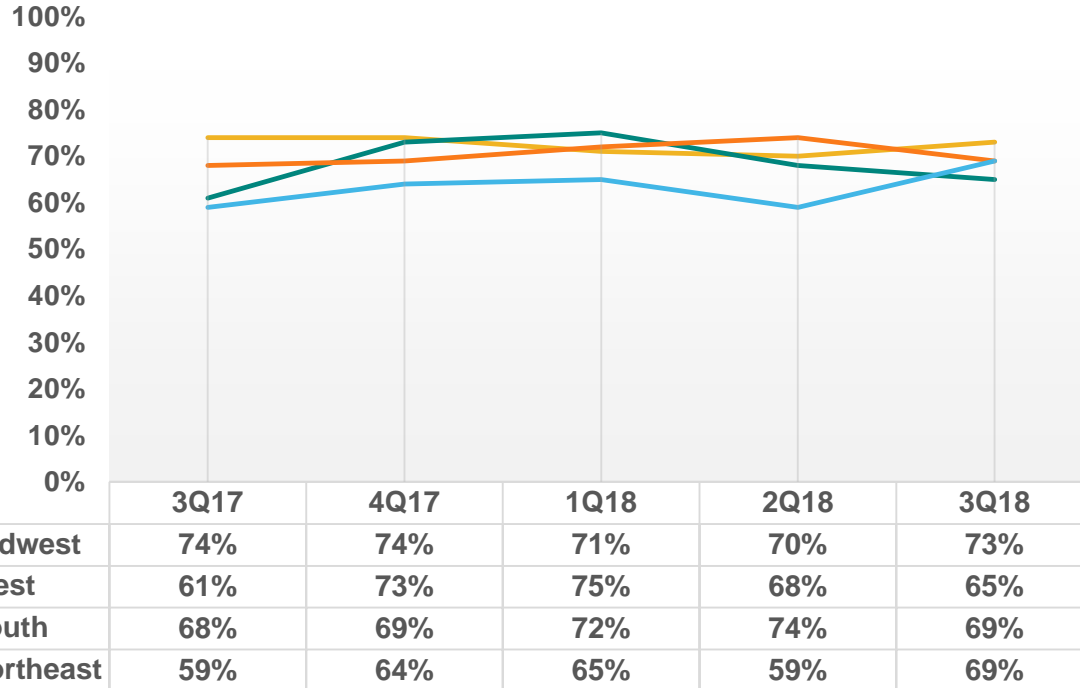


# Expected Employment Change by Industry



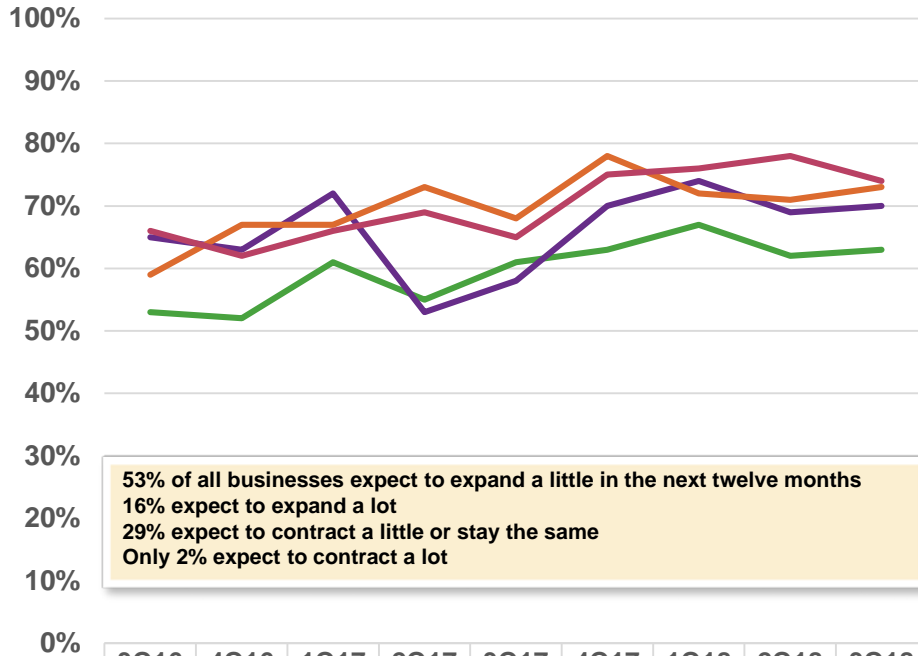
Thinking about the coming 12 months, please comment on the probable change for your organization for Number of Employees

# 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.

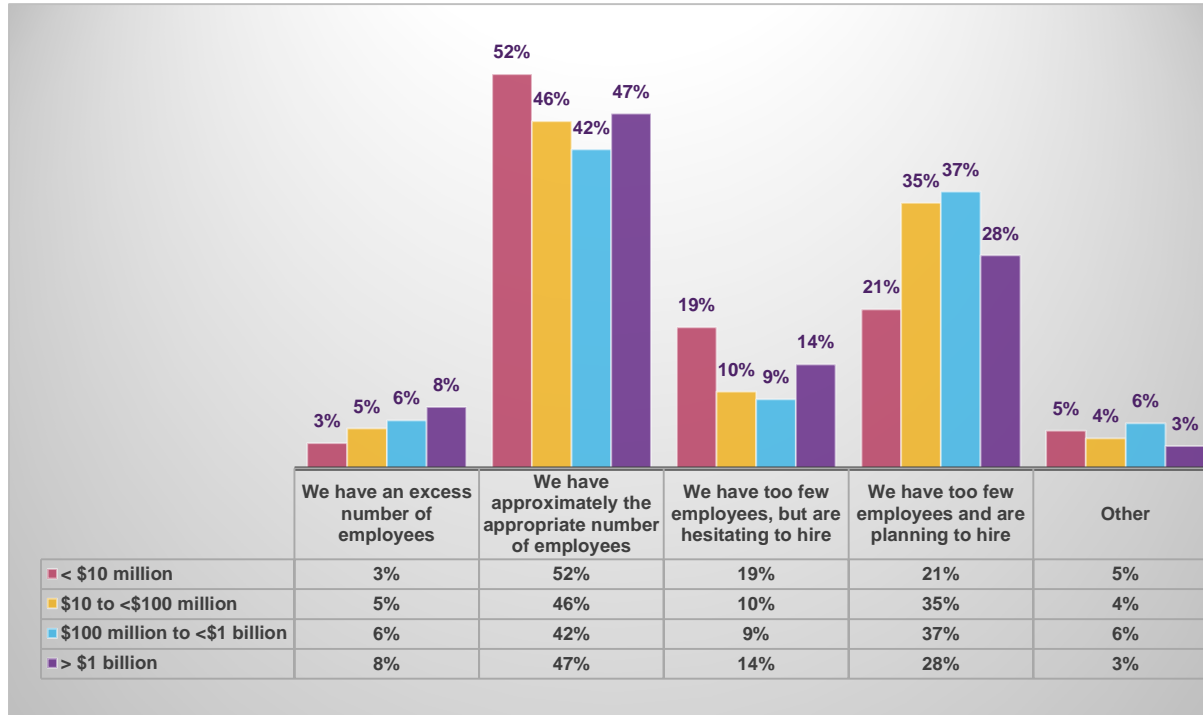
# Expansion Plans by Business Size



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

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

# Businesses in the >\$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)?



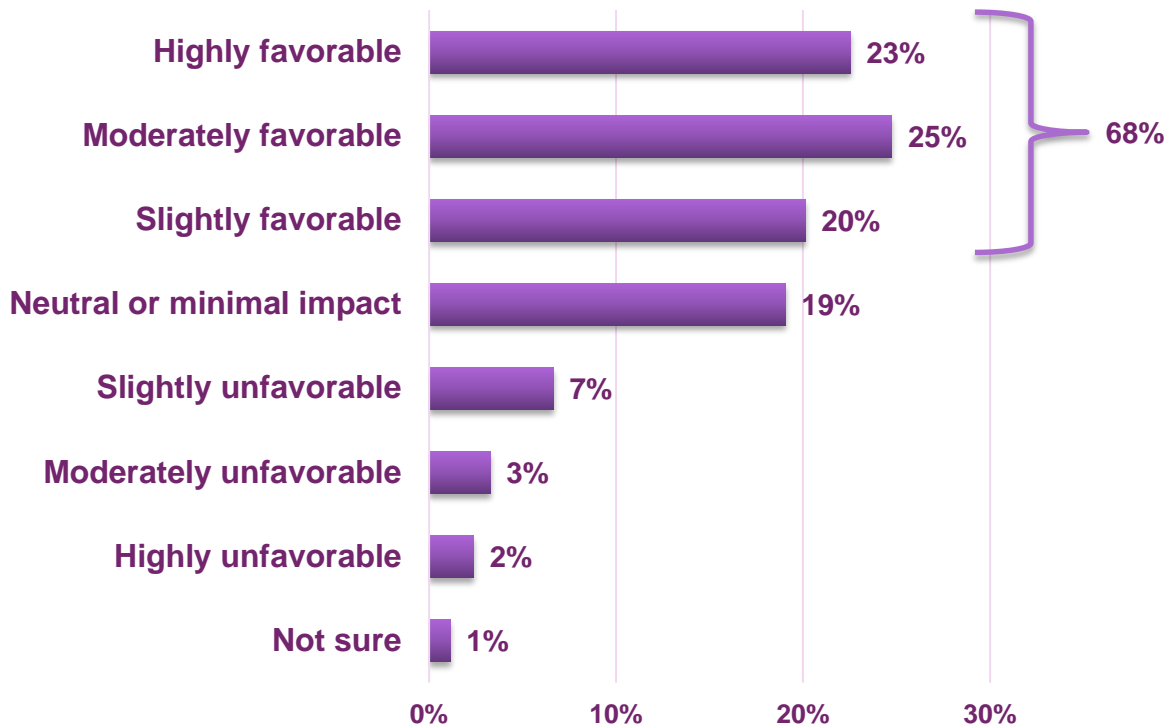
# AICPA Economic Outlook Survey

*Survey within a Survey*

**Federal Tax Reform Legislation and  
Tariff increases/trade quotas**

# Federal Tax Reform

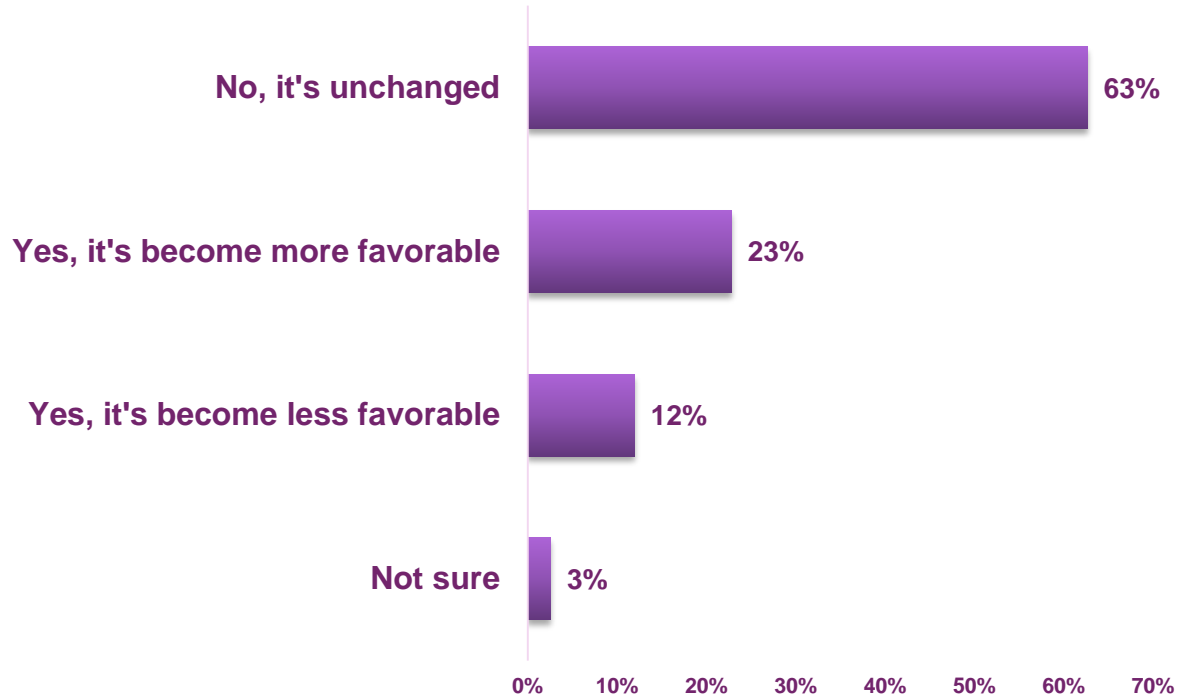
## Impact on your business



What's your prediction of the impact of recent federal tax reform legislation (The Tax Cuts and Jobs Act) on your business over the next 12 months?

# Federal Tax Reform

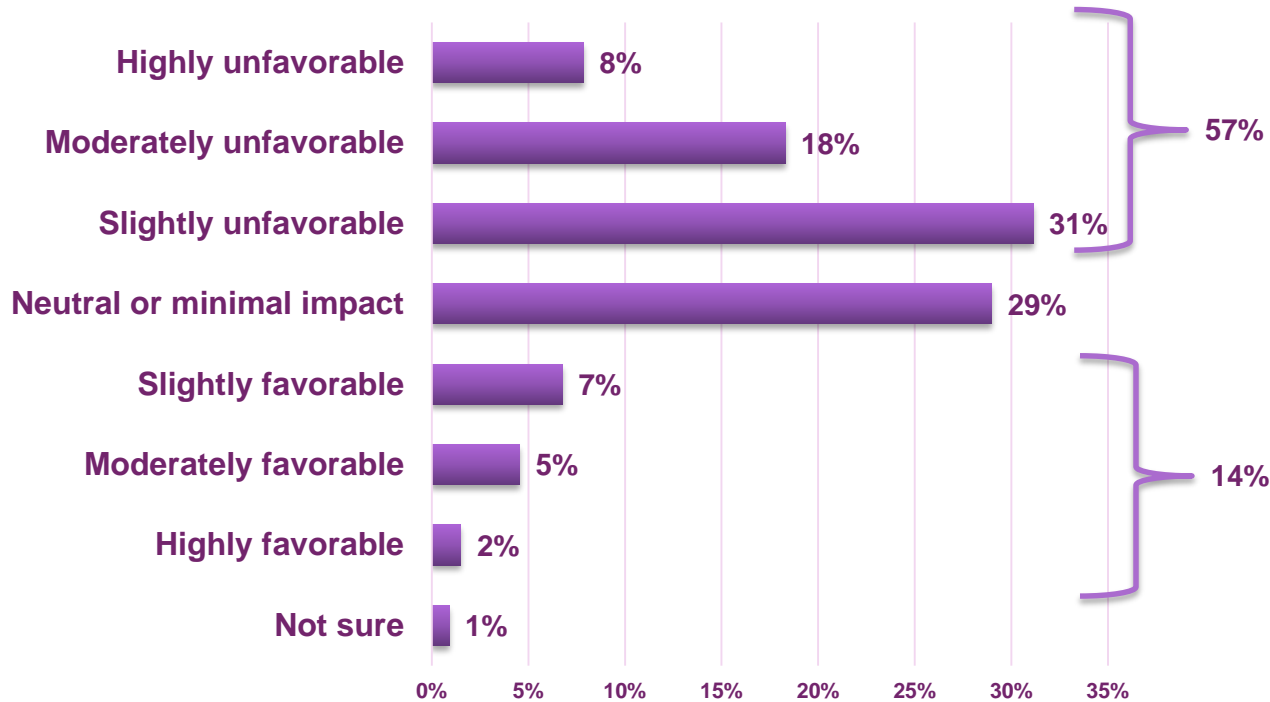
## View of tax reform



Has your view of the impact of federal tax reform on your business changed since the start of the year and, if so, how?

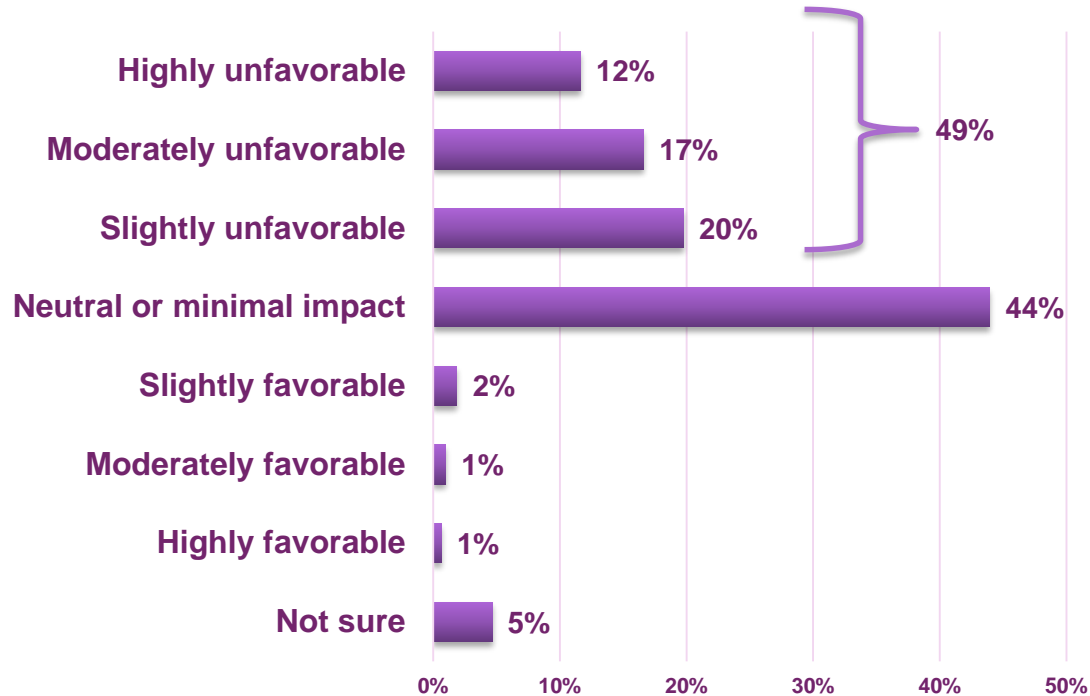
# Interest Rate Impact

Potential interest rate hikes



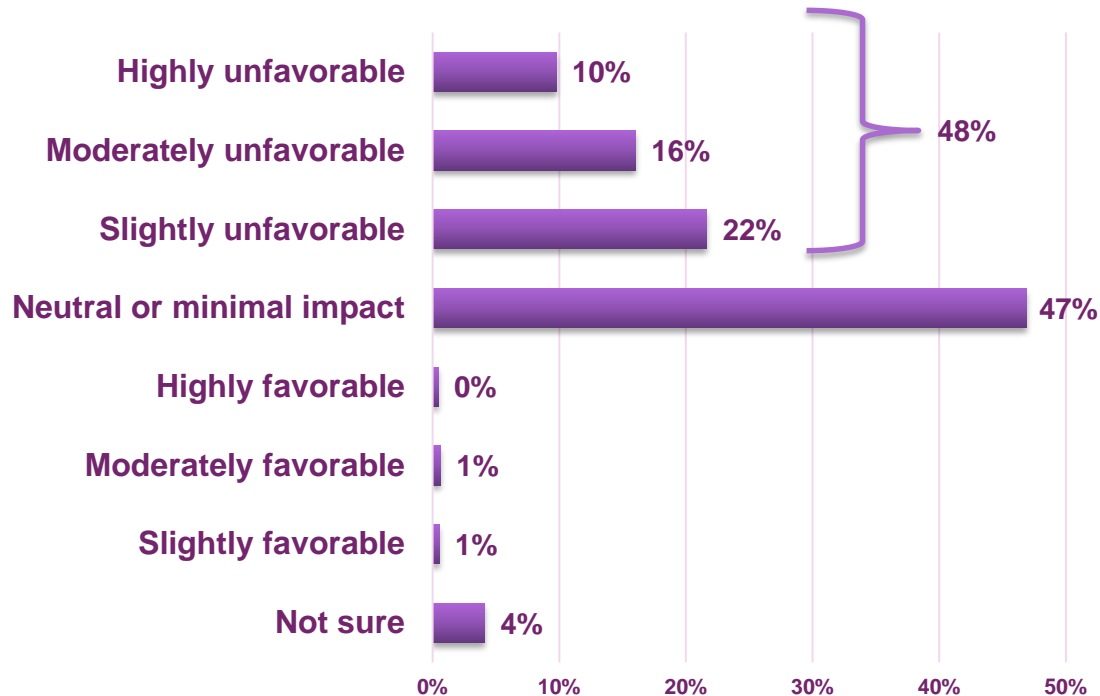
How do you view the impact of potential interest rate hikes on your company in the next 12 months?

# Tariff increases/trade quotas



**What is the likely impact on your business of recent tariff increases/trade quotas imposed by the U.S.?**

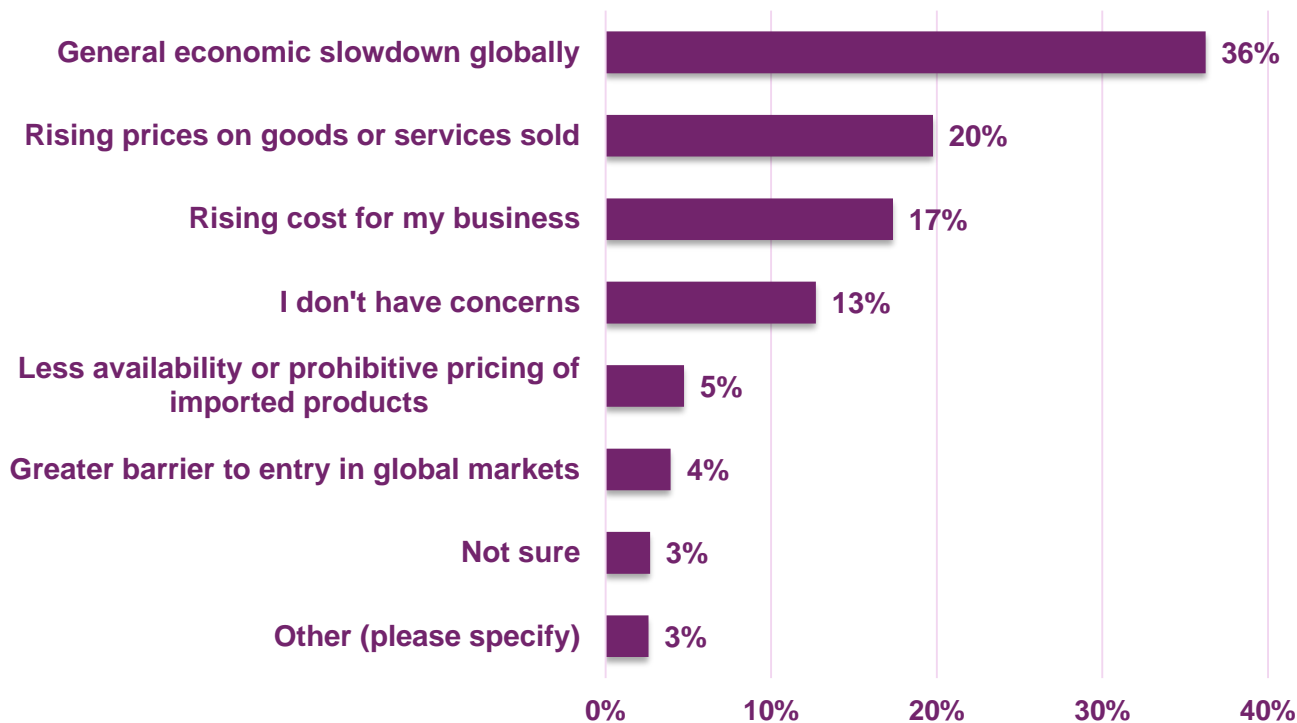
# Retaliatory tariffs/quotas



**What is the likely impact on your business of recent retaliatory tariff increases/trade quotas imposed by trading partners of the United States?**

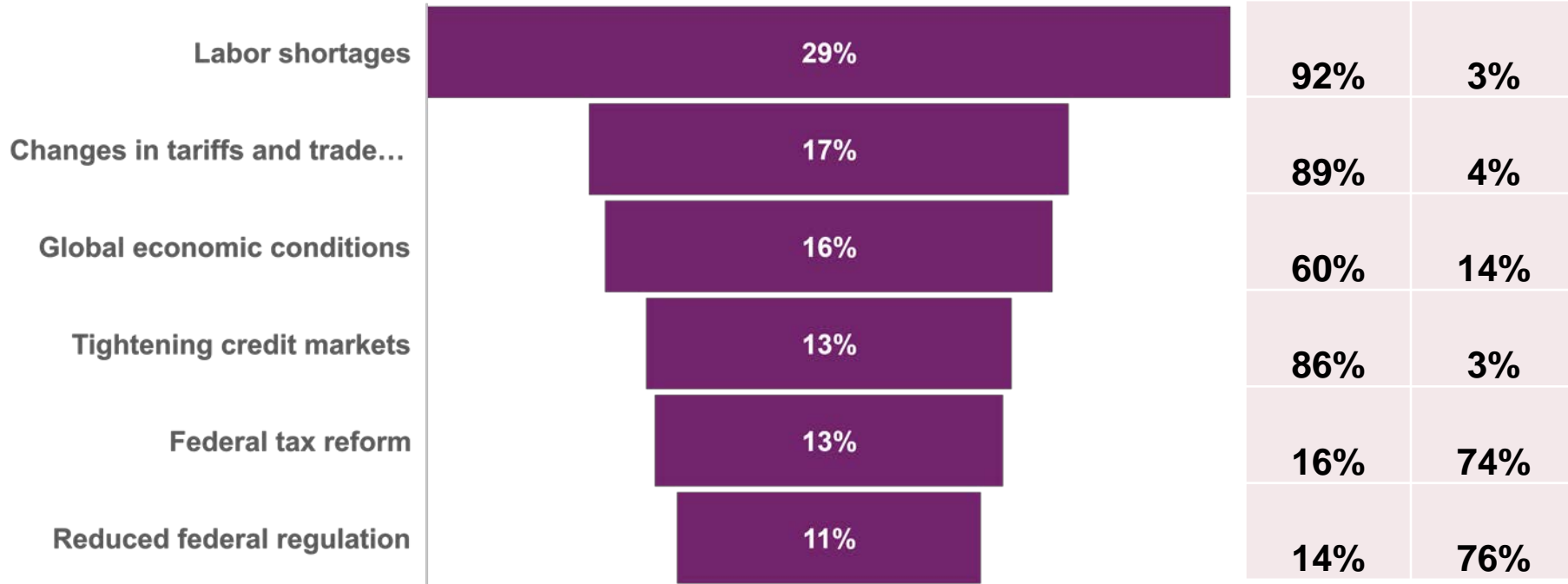
# Rising Trade Tensions

Impact on your company



**What is your  
greatest concern  
about rising trade  
tensions?**

# What factor is likely to have most impact on your business over next 12 months?







Association  
of International  
Certified Professional  
Accountants®

# AICPA Business and Industry Economic Outlook Survey 3Q 2018

For additional information contact:

Kenneth W. Witt, CPA, CGMA

Lead Manager

Research & Member Engagement - Americas

[Ken.Witt@aicpa-cima.com](mailto:Ken.Witt@aicpa-cima.com)

Cary Jones

Associate Manager

Business, Industry & Government

[Cary.Jones@aicpa-cima.com](mailto:Cary.Jones@aicpa-cima.com)