Association of International Certified Professional Accountants®

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Economic Outlook Survey

3rd 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.

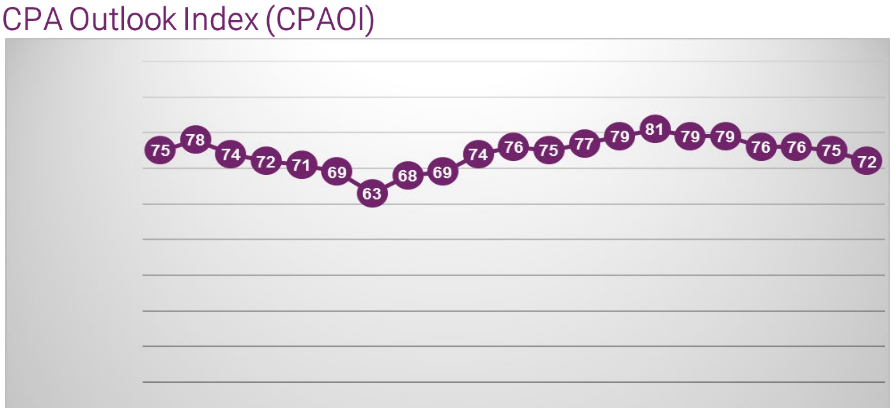
CPA Outlook Index

The CPA Outlook Index (CPAOI) dropped three points from 75 to 72.

The index component for optimism about the U.S. Economy dropped 10 points in the third quarter from 70 in the second quarter to now only 60, which is 19 points down from the third quarter 2018.

All index components declined in the third quarter with the exception of IT spending and other capital spending, which remained flat.

CPA Outlook Index (CPAOI)



	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
CPA Outlook Index	75	78	74	72	71	69	63	68	69	74	76	75	77	79	81	79	79	76	76	75	72

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	3Q18	4Q18	1Q19	2Q19	3Q19	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	79	71	72	70	60	↓10	↓19
Organization Optimism	81	79	77	75	72	↓03	↓09
Expansion Plans	80	77	76	75	72	↓03	↓08
Revenue	85	83	82	81	76	↓05	↓09
Profits	79	77	75	72	70	↓02	↓09
Employment	76	73	71	71	68	↓03	↓08
IT Spending	82	81	80	80	80	→00	↓02
Other Capital Spending	78	73	74	74	74	→00	↓04
Training & Development	75	74	75	73	72	↓01	↓03
Total CPAOI	79	76	76	75	72	↓03	↓07

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%].

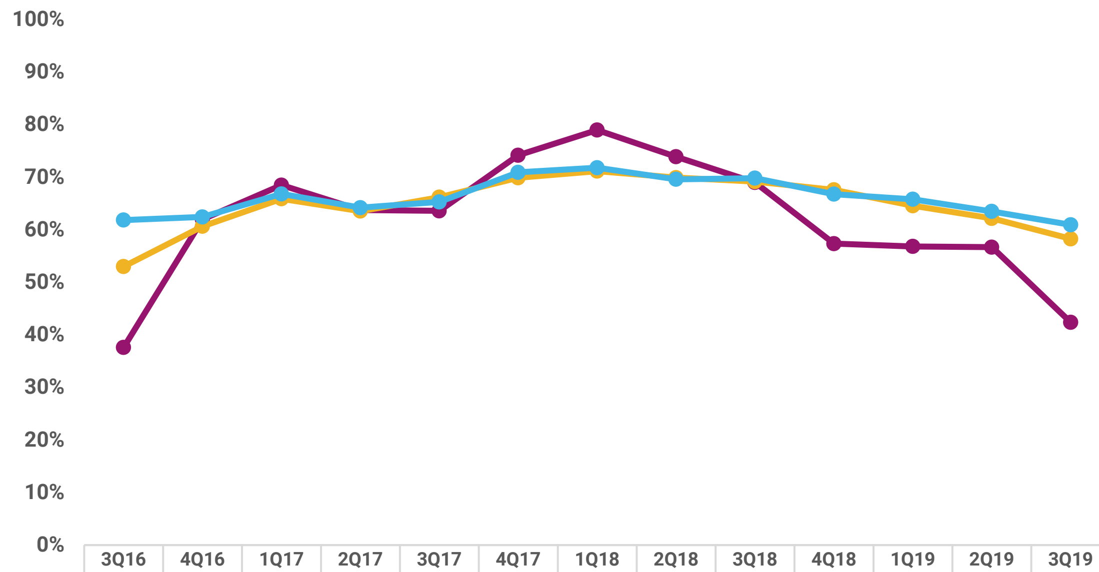
Outlook for the U.S. Economy and Organizations

Optimism for the U.S. Economy drops, organization optimism softens

In the third quarter of 2019 the percentage of CPA executives who are optimistic about the U.S. economy declined from 57% in the second quarter to now only 42% of respondents continuing to be optimistic. Optimism about respondents' own organizations also declined, easing from 62% in the second quarter to 58% in the third quarter. Expansion plans remained relatively strong. In the third quarter, 61% of companies still have plans to expand their operations in the coming twelve months, easing only two points from 63% in the second quarter.

Optimists cite continued overall economic strength, consumer spending and construction. Pessimists cite impact of tariff and trade issues, along with concern about length of recovery and ongoing political divisiveness.

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



	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
U.S.	38%	62%	69%	64%	64%	74%	79%	74%	69%	57%	57%	57%	42%
Organization	53%	61%	66%	64%	66%	70%	71%	70%	69%	68%	65%	62%	58%
Expansion	62%	62%	67%	64%	65%	71%	72%	70%	70%	67%	66%	63%	61%

The increased concern about inflation seen during much of 2018 continued to ease in the third quarter, with now only 23% being concerned. On the other side of the equation, the level of concern about deflation jumped from only 5% in the second quarter to 11% of respondents now having that concern.

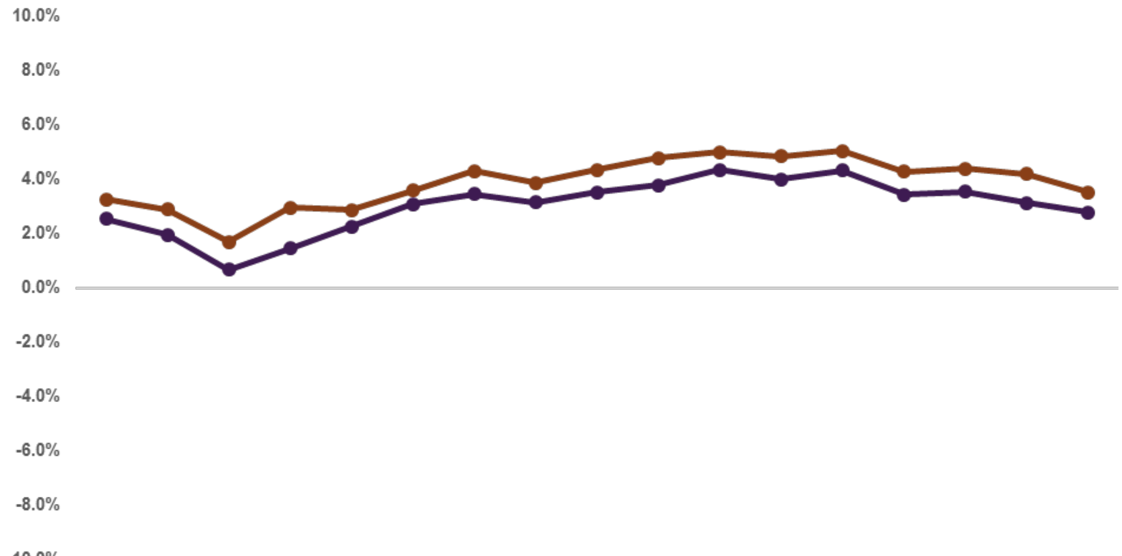
Labor costs continue to be the highest-ranking inflation concern for 37% of respondents. Raw materials cost concerns now stand at 32%. Interest rates is now the top concern for 20% after easing back to 18% in the second quarter. Energy cost concerns eased from 7% to 5%.

Key Performance Indicators

Revenue and profit projections both decline

Revenues are now expected to grow at a rate of 3.5%, down seven tenths from 4.2% in the second quarter. Profit expectations also continued to soften, falling to only 2.8% after hitting 4.4% and 4.1% in the first and third quarters of 2018, respectively.

Expectations for Revenue and Profits



	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
Revenue	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%	3.5%
Profit	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%	2.8%

Spending plans remained relatively constant. IT spending continues to lead the pack, maintaining an expected 3.4% increase in spending. Other capital spending is also expected to maintain its 3.0% pace, while spending for training is expected increase at a rate of only 1.9%, down from 2.1% in the second quarter.

Marketing spending plans, after giving up four tenths in the second quarter is still expected to increase at a pace of 1.6% going forward from the third quarter of 2019. Anticipated spending for R&D which also gave up four tenths in the second quarter, gave up another tenth to only 1.4% in the third quarter.

Salary and benefits cost expectations declined three tenths to now an expected 2.4% rate of increase. Expected healthcare cost increases, which continue to be higher than other costs, remained constant at 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” eased from 2.6% to 2.4%. On the other side of the equation, and possibly reflecting the jump in concern about deflation, the expected ability to increase “prices charged” fell from 2.2% to 1.9%, similar to 2017 levels.

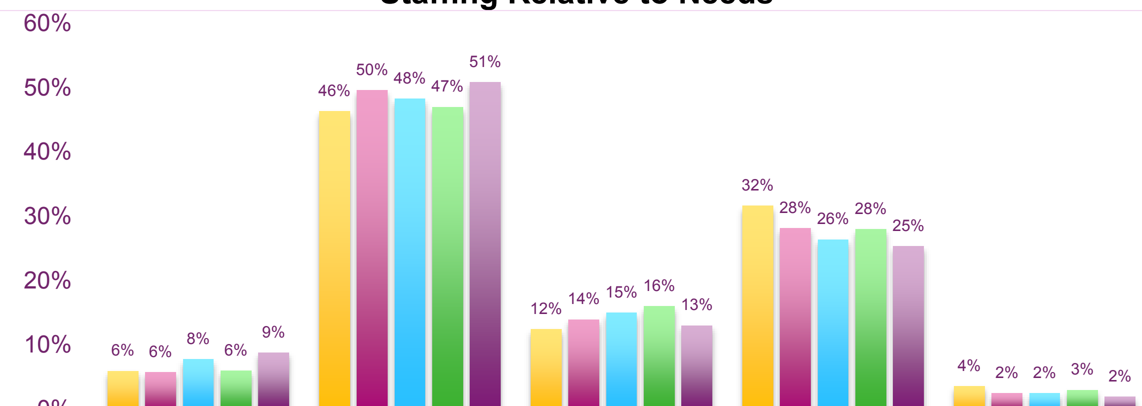
Hiring Plans

Fewer companies reporting too few employees, but less reluctance to hire

In this quarter 51% of all companies say they have the appropriate number of employees up 4 points from 47% in the second quarter Those saying they have an excess number of employees increased from 8% to 9% overall. The number of companies with revenues in excess of $1 billion having too many employees rebounded from only 3% in the second quarter to 8% in the third quarter.

This quarter, 38% now indicate that they currently have too few employees, down from 44% last quarter. Of these, the percentage of companies that are planning to hire decreased 3 points from 28% to 25%. The percentage of those who are reluctant to hire decreased 3 points from 16% to 13%.

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
3Q18	6%	46%	12%	32%	4%
4Q18	6%	50%	14%	28%	2%
1Q19	8%	48%	15%	26%	2%
2Q19	6%	47%	16%	28%	3%
3Q19	9%	51%	13%	25%	2%

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

- For employers with > $1 billion in revenues, 8% now have excess employees, while only 39% have too few, down from 52% in the second quarter. Of those with too few employees, 18% remain hesitant while 21% are planning to hire.
- Of those in the $100 million to $1 billion category, 39% say they have too few employees; 26% are hiring, while 13% are hesitant.
- In the $10 - $100 million range, 39% now have too few employees; of those with too few, 27% have plans to hire; only 12% are hesitant
- Of employers with revenues < $10 million 37% have too few employees; 24% are planning to hire; 13% are hesitant.

Industry, Region and Business Size Outlook

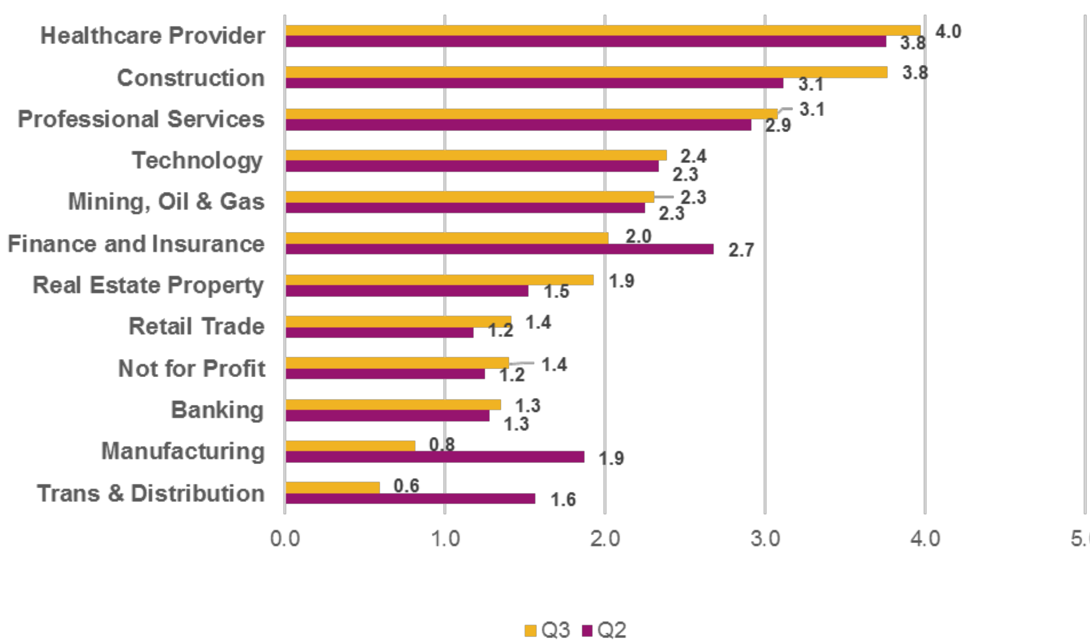
Optimism and hiring eases in some sectors, continues strong in others

Retail trade optimism recovered from only 40% optimistic in the second quarter to now 54% optimistic. Retail hiring also gained some strength from 1.2% to a 1.4% expected rate of increase going forward from the third quarter.

Manufacturing optimism declined from 57% to 51% optimistic. Similarly, hiring is in manufacturing fell from 1.9% to only a 0.8% expected rate of increase.

Construction optimism eased slightly from 83% to 76% optimistic, but expected hiring strengthened further, improving from a 3.1% to a 3.8% expected rate of increase. Real estate and property optimism declined from 67% to only 52%; however, hiring improved from 1.5% to 1.9%.

Expected Employment Change by Industry



Consistent with continued strong expectations for IT spending, IT optimism gained another 5 points from 70% to 70% optimistic. Expected hiring in the IT sector improved a tenth from 2.3% to 2.4%.

Finance and Insurance optimism gave up ten points from 77% to 67%; professional services optimism recovered from 61% to 67%. Professional services hiring improved from a rate of 2.9% to 3.1% in the third quarter.

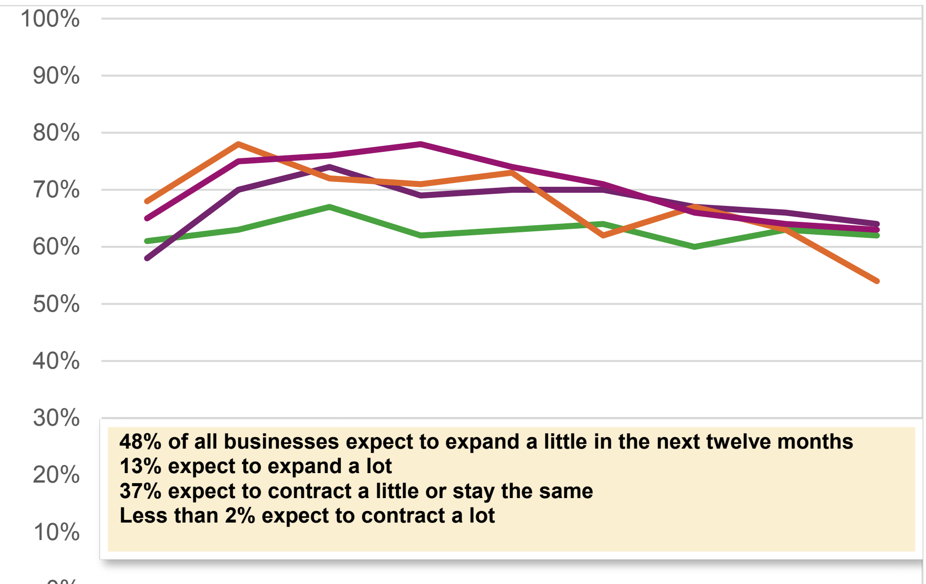
Healthcare optimism, after rebounding from 51% in the first quarter to 63% in the second quarter, now stands at 58%. Healthcare hiring leads the pack at an expected pace of 4.0%. Healthcare-other optimism declined from 57% optimistic in the second quarter to only 42% optimistic in the third quarter.

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

Regional optimism drops further in Midwest; also, in South, while Northeast rebounds; expansion plans for $100 million to $1 billion revenue companies decline

In terms of regional perspective, optimism in the Midwest dropped 6 points from 60% optimistic to now only 54% optimistic, and optimism in the South also fell from 72% to 61%. On the other hand, optimism in the Northeast improved from only 53% optimistic in the second quarter to 59%. Optimism in the West remained relatively constant, easing a point to 60% of executives being optimistic about their prospects.

Expansion Plans by Business Size



	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
< $10 million	61%	63%	67%	62%	63%	64%	60%	63%	62%
$10 to <$100 million	58%	70%	74%	69%	70%	70%	67%	66%	64%
$100 million to <$1 billion	68%	78%	72%	71%	73%	62%	67%	63%	54%
> $1 billion	65%	75%	76%	78%	74%	71%	66%	64%	63%

Expansion plans:

- Expectations for expansion by businesses with revenues < $10 million eased a point from 63% to 62%;
- Plans for companies in the $10 - $100 million category dropped two points to 64%;
- Expansion plans for companies in the $100 million to $1 billion range fell nine points, easing from 63% to now only 54% having expansion plans;
- Those with revenues in excess of $1 billion eased another point to 63%.

Top Challenges

Availability of skilled personnel continues to be most challenging

- Availability of skilled personnel continues as the top challenge
- Domestic economic conditions jump 4 spots to #2
- Domestic political leadership jumps 5 spots to #3
- Domestic competition drops 1 spot to #4
- Employee and benefit costs drops 3 spots to #5
- Regulatory requirements drop 2 spots to #6
- Staff turnover drops to 7th place
- Stagnant/declining markets re-enters in the 8th spot after falling off 4Q2017
- Developing new products and services remains the same in the 9th place position
- Changing customer preferences stays the same in the 10th position

Top Challenges Facing Organizations

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

Survey Background

The survey was conducted of AICPA Business & Industry members between July 30- August 21, 2019 and had 785 qualified respondents.

CFOs comprised 41% of the respondents, 17% were Controllers, 11% were Presidents, CEOs, or other C-suite titles; 7% were VP/SVPs, 19% were accounting, audit, tax, technology directors or managers; the remainder were other executives.

Sixty five percent of respondents came from privately owned entities, 17% from publicly listed companies, and 16% from not-for-profits.

Fifteen percent came from organizations with annual revenues of $1 billion or more, 25% from organizations with $100 million to under $1 billion in annual revenues, 43% from organizations with $10 million to $100 million and 17% from organizations with under $10 million in revenues.

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