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) rebounds from 38 to 54.

All index components improve including organization optimism and expansion plans.

U.S. economic optimism and profitability improve but still in the negative outlook territory.

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>3Q19</th>
<th>4Q19</th>
<th>1Q20</th>
<th>2Q20</th>
<th>3Q20</th>
<th>ΔQ to Q</th>
<th>ΔY to Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Economic Optimism</td>
<td>60</td>
<td>64</td>
<td>74</td>
<td>29</td>
<td>37</td>
<td>↑08</td>
<td>↓23</td>
</tr>
<tr>
<td>Organization Optimism</td>
<td>72</td>
<td>73</td>
<td>78</td>
<td>46</td>
<td>58</td>
<td>↑12</td>
<td>↓14</td>
</tr>
<tr>
<td>Expansion Plans</td>
<td>72</td>
<td>71</td>
<td>75</td>
<td>33</td>
<td>54</td>
<td>↑21</td>
<td>↓18</td>
</tr>
<tr>
<td>Revenue</td>
<td>76</td>
<td>76</td>
<td>81</td>
<td>27</td>
<td>51</td>
<td>↑24</td>
<td>↓25</td>
</tr>
<tr>
<td>Profits</td>
<td>70</td>
<td>71</td>
<td>73</td>
<td>26</td>
<td>47</td>
<td>↑21</td>
<td>↓23</td>
</tr>
<tr>
<td>Employment</td>
<td>68</td>
<td>70</td>
<td>71</td>
<td>38</td>
<td>54</td>
<td>↑16</td>
<td>↓14</td>
</tr>
<tr>
<td>IT Spending</td>
<td>80</td>
<td>80</td>
<td>81</td>
<td>59</td>
<td>71</td>
<td>↑12</td>
<td>↓09</td>
</tr>
<tr>
<td>Other Capital Spending</td>
<td>74</td>
<td>71</td>
<td>74</td>
<td>43</td>
<td>56</td>
<td>↑13</td>
<td>↓18</td>
</tr>
<tr>
<td>Training &amp; Development</td>
<td>72</td>
<td>72</td>
<td>73</td>
<td>45</td>
<td>56</td>
<td>↑11</td>
<td>↓16</td>
</tr>
<tr>
<td>Total CPAOI</td>
<td>72</td>
<td>72</td>
<td>76</td>
<td>38</td>
<td>54</td>
<td>↑16</td>
<td>↓18</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 Organization

*Improvement in optimism about organization prospects and expansion plans outpace slight uptick in outlook for U.S. Economy*

The percentage of CPA executives who are optimistic about the prospects for their own organizations and have plans to expand their businesses rebounded significantly from the second quarter declines we saw in the wake of the coronavirus shutdown. However, the uptick in optimism about the U.S. Economy was nominal, from 20% to only 24% optimistic.

The level of optimism about our respondent’s own organizations improved from 30% to 41%, and those saying they have plans to expand their business increased from only 24% in the second quarter to now 43%.

Pessimists obviously cite the COVID-19 disruption impact on the economy, business closures and the impact on employment. Optimists cite low interest rates, construction and consumer spending, along with resilience and innovation of our economy.

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

Concern about costs and prices is likely to be an evolving story. Overall, the concern about inflation remained flat at 20%, while expectations for prices charged for products and services rebounded to 1.7% after falling to only 0.2% in the second quarter.

Concern about deflation eased from 18% to 11%, which is consistent with expectations for input prices rebounding from a projected increase of only 1.4% to 1.8%.
Concern about labor costs as the highest-ranking inflation concern from only 29% of respondents in the second quarter to 37% in the third quarter. Similarly, raw material cost concerns ticked up from 28% to 36% The jump in concern about food costs as the most significant inflation concern that we saw in the second quarter, dropped back from 12% to only 5%. Interest rate concerns dropped a point to 12%, and energy costs remained constant at 6%.

Key Performance Indicators

Revenue and profit projections, along with spending plans reflect rebound in outlook

While revenues are still projected to decline -0.6%, and profits -1.2% over the coming twelve months, these are both significant improvements from the negative -5% and -5.5% declines, respectively, that were projected in the second quarter survey.

Reported spending plans are also showing improvement. While IT spending rebounded from a meager 0.4% in the first quarter to a 1.9% projected increase this quarter, this projection is still a point or more below the 3% range we had seen in the previous several quarters.

Other capital spending is now projected to increase by 0.1%, up from a decrease of -2.0% expected in the second quarter. Training spend now expected to decline by only -0.2%, which us up from -1.7% last quarter. Marketing spending cuts eased from -2.4% to -0.5%, while R&D spending plans turned positive from -1.6% to 0.1%.
Hiring Plans

*Employment picture also improves with fewer businesses saying they have excess employees*

In this quarter, 55% of all companies say they have the appropriate number of employees. The number that currently say that they have an excess of employees, eased from 25% to 16%.

On the other side of the equation, 27% of our respondents indicated they had too few employees. While 14% are hesitating because of current conditions, 13% are planning to hire in the near future, up from only 7% in the second quarter.

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, 14% have excess; of the 25% with too few, 11% are planning to hire, 14% are hesitant.
- For employers with > $1 billion in revenues, 20% now have excess employees, while 34% have too few. Of those with too few employees, only 15% are planning to hire, while 19% remain hesitant.
- Of those in the $100 million to $1 billion category, 29% say they have too few employees; 11% are hiring; while 18% are hesitant.
- In the $10 - $100 million range, 26% now have too few employees; of those with too few, 12% have plans to hire; 14% are hesitant.
Industry, Region and Business Size Outlook

**Optimism rebounds in retail, manufacturing and construction; hospitality industry still suffering**

Retail trade optimism rebounded from only 29% optimistic in the second quarter to now 48% optimistic. Expectations for retail employment are also projected to increase by 1.0% in the coming year, after projecting a decline of -4.1% in the second quarter.

Manufacturing also rebounded with now 54% of their executives being optimistic about their prospects, up from only 31% in the second quarter. Manufacturing hiring is now expected to increase at a 0.7% rate, after projecting a -2.0% decline looking forward from the second quarter.

As noted in the second quarter, 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 still projecting a decline of -3.6% in employment, only a slight improvement over the -5.3% projection in the second quarter.

Similarly, as the combined effect of the pandemic and pricing turmoil continue to impact this sector, executives in the Mining, Natural Resources and Oil and Gas sector are now projecting a decline of -2.3% in employment vs. -3.9% in the second quarter.

*Expected Employment Change by Industry*

As noted above, IT spending plans rebounded, which is also reflected in an increase in optimism among IT executives from 35% to 55%. Hiring is now also expected to increase at a rate of 1.5% in this sector.

The outlook for Finance and Insurance improved from 40% to 49% optimistic; professional services optimism also improved from only 27% to 40%. Professional services employment is now expected to remain flat rather than decline by -2.1% as projected in the second quarter.
Industry, Region and Business Size Outlook (cont’d)

Healthcare provider optimism rebounded from 24% to 39% optimistic. Healthcare-other optimism declined further from 48% to only 38%, and employment plans eased to 0.5%, down from a 1.8% projected increase in the second quarter.

In terms of regional perspective, optimism about the prospects for our executives’ organizations all recovered 10-12 points. The Northeast improved from 26% to 38%. The Midwest improved from 27% to 37% now being optimistic. Optimism in the West improved from 30% to 42%, while the South comes in at 46% optimistic, up from only 34% in the second quarter.

Expansion Plans by Business Size

<table>
<thead>
<tr>
<th>Expansion Plans</th>
<th>3Q18</th>
<th>4Q18</th>
<th>1Q19</th>
<th>2Q19</th>
<th>3Q19</th>
<th>4Q19</th>
<th>1Q20</th>
<th>2Q20</th>
<th>3Q20</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; $10 million</td>
<td>63%</td>
<td>64%</td>
<td>60%</td>
<td>63%</td>
<td>62%</td>
<td>52%</td>
<td>62%</td>
<td>24%</td>
<td>40%</td>
</tr>
<tr>
<td>$10 to &lt; $100 million</td>
<td>70%</td>
<td>70%</td>
<td>67%</td>
<td>66%</td>
<td>64%</td>
<td>59%</td>
<td>64%</td>
<td>24%</td>
<td>41%</td>
</tr>
<tr>
<td>$100 million to &lt; $1 billion</td>
<td>73%</td>
<td>62%</td>
<td>67%</td>
<td>63%</td>
<td>54%</td>
<td>62%</td>
<td>65%</td>
<td>23%</td>
<td>48%</td>
</tr>
<tr>
<td>&gt; $1 billion</td>
<td>74%</td>
<td>71%</td>
<td>66%</td>
<td>64%</td>
<td>63%</td>
<td>68%</td>
<td>63%</td>
<td>26%</td>
<td>44%</td>
</tr>
</tbody>
</table>

Expansion plans across business size all show significant improvement after falling off from nearly two-thirds of businesses having plans to expand, to only a quarter having expansion plans in the second quarter. Those with revenues in the $100 million to > $1 billion range showed the biggest improvement with 48% now having plans to expand vs. only 23% in the second quarter.

Last quarter nearly 23% expected to contract a lot, and another 25% expected to contract a little. Now, while we still have 25% of companies expected to contract a little, only 9% of companies expect to contract their business a lot.
**Top Challenges**

*Domestic economic conditions, along with domestic political leadership top the list*

- Domestic economic conditions remained as #1 challenge
- Domestic political leadership jumps up 4 spots to #2
- Employee and benefit costs jumps 6 spots - now at #3
- Availability of skilled personnel jumps up 4 spots to #4
- Stagnant/declining markets drop 3 spots to the #5 spot
- Regulatory requirements drop 1 spot to #6
- Global economic conditions drop 3 spots to #7
- Changing customer preferences up 2 spots to 8th place
- Domestic competition returns from 1Q20 spot 2 to #9
- Materials/supplies/equipment costs returns to the 10th position after falling off in 1Q20

### Top Challenges Facing Organizations

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

Cash and liquidity

Characterization of businesses’ current cash position and their concern about liquidity over the coming twelve months is captured by the charts below:

**Current Cash Position**

- **Strong**: 47%
- **Acceptable**: 38%
- **Concerning**: 12%
- **Dire**: 2%
- **Not sure**: 0%

**Level of Concern about Liquidity for the Coming Year**

- **Significant concern**: 10%
- **Moderate concern**: 25%
- **Slight concern**: 25%
- **Neutral**: 14%
- **No concern**: 26%
Survey Background

The survey was conducted of AICPA Business & Industry members between July 28 - August 18, 2020 and had 1067 qualified respondents.

CFOs comprised 45% of the respondents, 22% were Controllers, 16% were Presidents, CEOs, or other C-suite titles; 6% were VP/SVPs, 11% were accounting, audit, tax, technology directors or managers; the remainder were other executives.

Sixty seven percent of respondents came from privately owned entities, 12% from publicly listed companies, and 18% from not-for-profits.

Ten percent came from organizations with annual revenues of $1 billion or more, 19% from organizations with $100 million to under $1 billion in annual revenues, 47% from organizations with $10 million to $100 million and 24% from organizations with under $10 million in revenues.