Management Accounting

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Economic Outlook Survey

4th quarter executive summary

The CPA Outlook Index

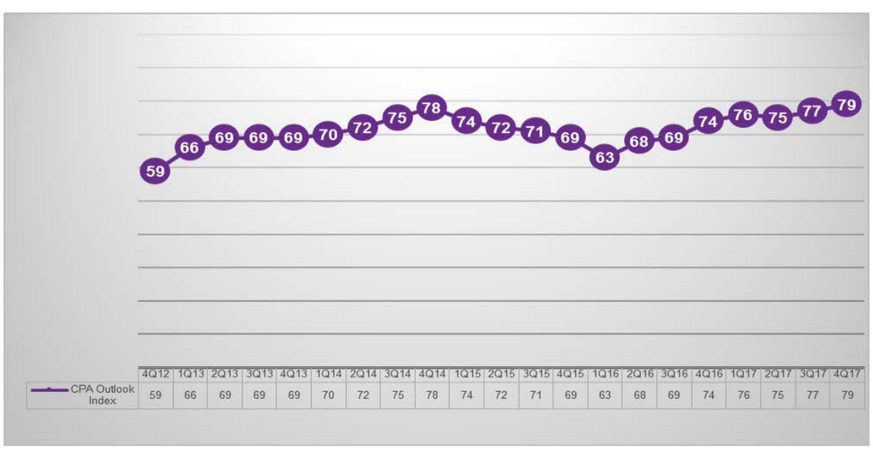
The CPA Outlook Index (CPAOI) is a broad-based indicator of the strength of U.S. business activity and economic direction that reflects the views of CPAs who are AICPA members in Business & Industry holding executive positions in both public and privately-owned organizations of all sizes, and across a broad spectrum of industries.

CPA Outlook Index

The CPA Outlook Index (CPAOI) increased another 2 points to 79 in the fourth quarter of 2017. This is the highest total CPAOI since before.

The index component for optimism about the U.S. Economy improved to 84, up from 77 in the third quarter.

Organization optimism and expansion plans, along with revenue and profit indicators all showed increases in the fourth quarter as well. Employment and other capital spending both eased a point from third quarter levels.



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	4Q16	1Q17	2Q17	3Q17	4Q17	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	76	79	77	77	84	↑07	↑08
Organization Optimism	74	77	76	78	80	↑02	↑06
Expansion Plans	74	77	76	76	80	↑04	↑06
Revenue	78	81	79	83	85	↑02	↑07
Profits	74	74	72	77	78	↑01	↑04
Employment	68	71	72	72	71	↓01	↑03
IT Spending	77	78	80	81	82	↑01	↑05
Other Capital Spending	73	71	72	77	76	↓01	↑03
Training & Development	71	73	73	74	76	↑02	↑05
Total CPAOI	74	76	75	77	79	↑02	↑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

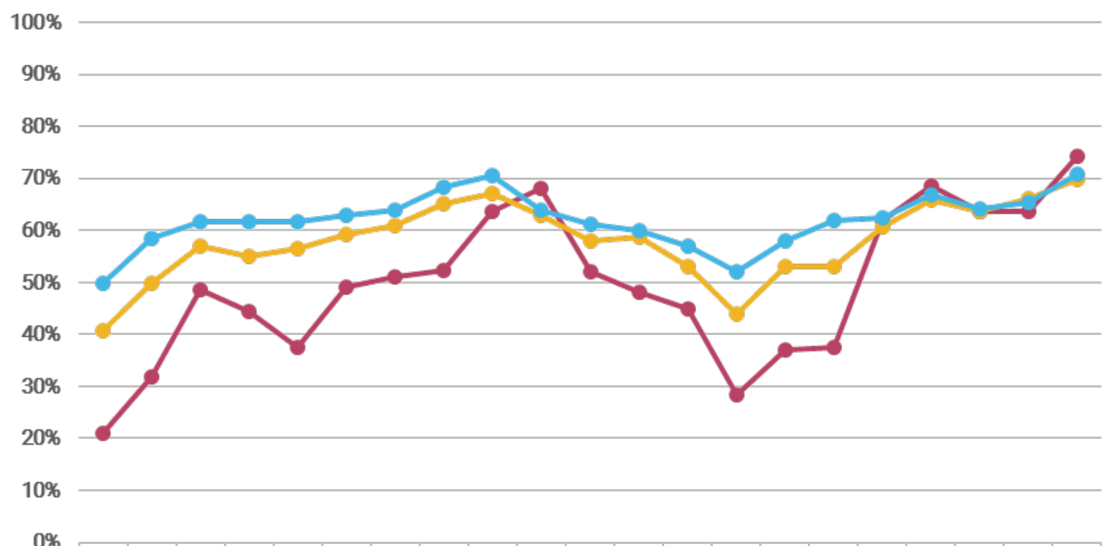
Optimism for the U.S. Economy increases a full 10% in Q4

The number of CPA executives who are optimistic about the U.S. economy increased from 64% in the third quarter to 74% in the fourth quarter. Optimists site the general strength of many economic indicators, strong consumer demand at home, and strength in the global economy, along with more favorable business conditions with the current administration and continued expectation for tax reductions.

On the downside, in addition to ongoing concern about political dysfunction, a number of respondents expressed concern that stock market and real estate price levels are not sustainable and some economists are predicting a downturn.

Organizational optimism increased from 66% to a post-recession high of 70%. The percentage of companies with expansion plans also rebounded to 71%, matching the level seen in the fourth quarter of 2014.

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



	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
U.S.	21%	32%	49%	44%	38%	49%	51%	52%	64%	68%	52%	48%	45%	28%	37%	38%	62%	69%	64%	64%	74%
Organization	41%	50%	57%	55%	57%	59%	61%	65%	67%	63%	58%	59%	53%	44%	53%	53%	61%	66%	64%	66%	70%
Expansion	50%	58%	62%	62%	62%	63%	64%	68%	71%	64%	61%	60%	57%	52%	58%	62%	62%	67%	64%	65%	71%

Concerns about inflation remained relatively constant with just over a quarter (27%) concerned about inflation. Similarly, only 5% are concerned about deflation.

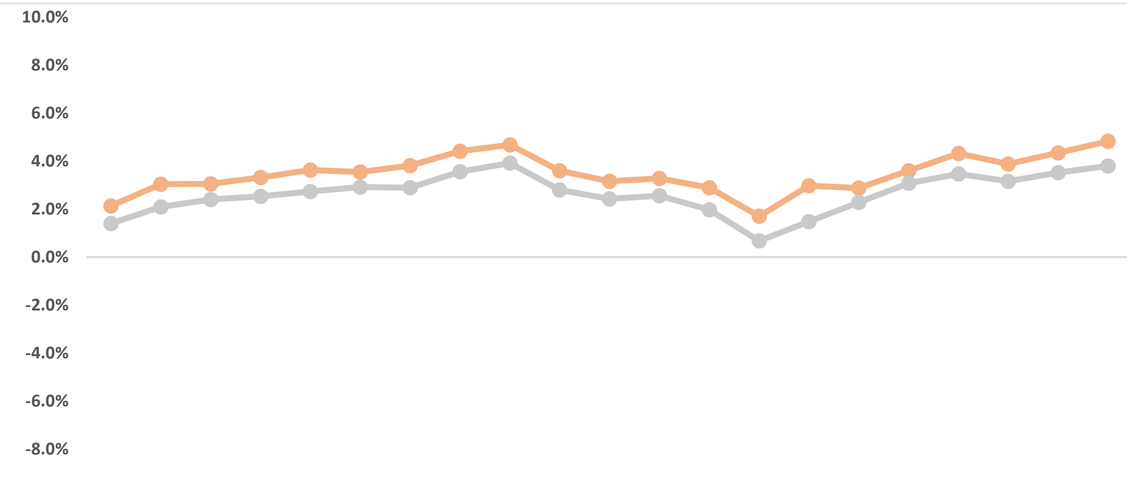
Labor costs continue to be the most pressing concern for 41% of respondents, easing slightly from 44% in the third quarter. Raw material cost concerns also eased three points from 27% to 24%. Interest rate concerns, after easing in the third quarter, jumped from 15% to 21%. Energy cost concerns remained constant at 6%, although comments were made both about the lack of support for energy prices and the potential for a disruptive event.

Key Performance Indicators

Revenue and profit projections both show significant increases

Expectations for increased revenues and profits for the coming 12 months showed additional increases in the fourth quarter. Revenues are expected to grow at a 4.8% rate, and profits at a 3.8% rate.

Expectations for Revenue and Profits



	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
Revenue	2.1%	3.0%	3.1%	3.3%	3.6%	3.6%	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%
Profit	1.4%	2.1%	2.4%	2.5%	2.7%	2.9%	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%

IT continues to be the strongest category of planned spending over the upcoming twelve months, maintaining an expected rate of increase of 3.5%. Other capital spending plans ease two tenths to 3.1%, after increasing in the second quarter from 2.8% to 3.3%. Spending for training and development also improved another point, to 2.2%, continuing its quarter-by-quarter improvement trend. Plans for spending on marketing improved two tenths from 1.8% to 2.0%, and plans for R&D spending maintained the post-recession high of 2.0% reached last quarter.

Salary and benefits costs inched up another tenth this quarter, from 2.4% to a 2.5% expected rate of increase. Expected healthcare cost increases which continue to be higher than other costs, eased back to 5.9% after jumping to 6.3% in the third quarter.

The expected increase in “other input prices” eased back up a tenth to 2.5% as in the second quarter. The expected ability to increase “prices charged” eased up two tenths from 1.9% to 2.1%.

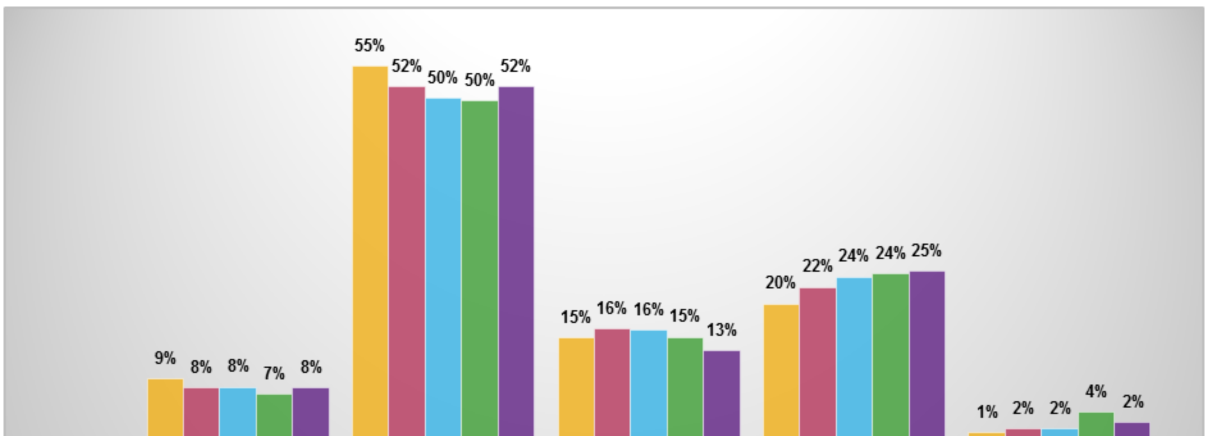
Hiring Plans

While some continue to have concerns, hiring plans continue to improve

In this quarter as in last, 52% of all companies say they have the appropriate number of employees. Those saying they have an excess number of employees inched up a point to 8%.

This quarter, 38% now indicate that they currently have too few employees, down from 39% last quarter. Of these, the percentage of companies that are planning to hire improved a point to 24%. The percentage of those who are reluctant to hire dropped two points from 15% in the third quarter to now only 13%, the lowest percentage since we began polling staffing plans relative to needs in the first quarter of 2010.

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
4Q16	9%	55%	15%	20%	1%
1Q17	8%	52%	16%	22%	2%
2Q17	8%	50%	16%	24%	2%
3Q17	7%	50%	15%	24%	4%
4Q17	8%	52%	13%	25%	2%

Employment plans by business size show more confidence by the larger employers:

- For employers with > $1 billion in revenues, 42% have too few employees. Only 19% remain hesitant while 23% are planning to hire.
- Of those in the $100 million to $1 billion category, 46% now say they have too few employees and 33% are hiring; only 13% are hesitant.
- In the $10 - $100 million range, of the total of 33% with too few employees, 24% have plans to hire; only 9% are hesitant.
- Employers with revenues < $10 million remain mixed; while 36% have too few employees, 18% are planning to hire; 18% are hesitant.

Industry, Region and Business Size Outlook

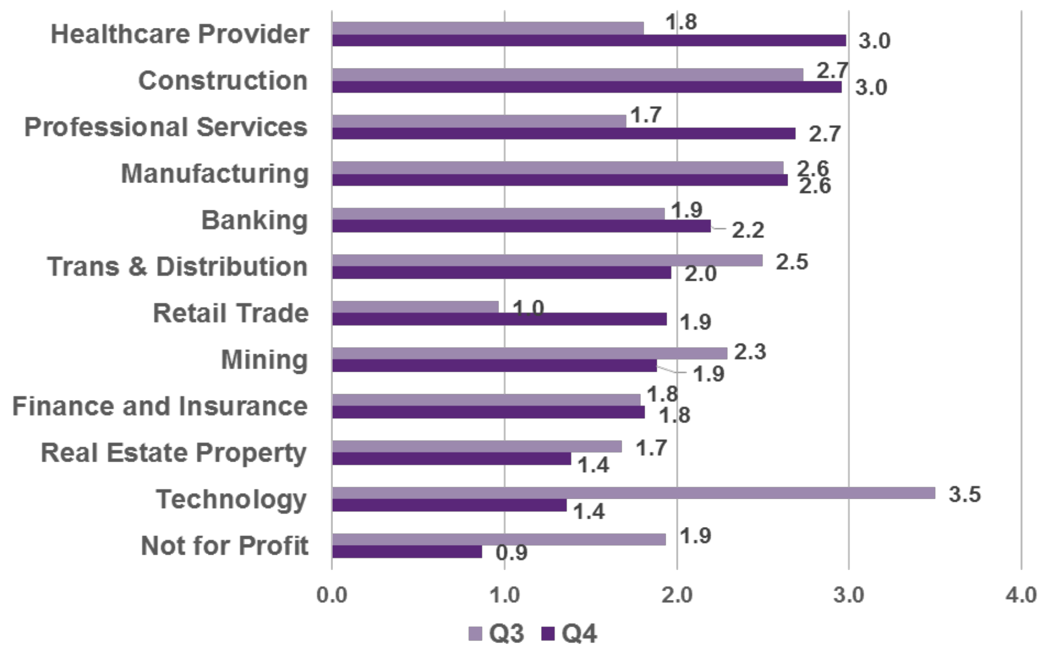
Optimism and hiring strong across most sectors

Retail trade optimism recovered to 58% in the fourth quarter after falling off to only 52% optimistic in the third quarter. Hiring for retail, while continuing to be softer than other sectors, did improve from an expected rate of only 0.9% in the third quarter to 1.9% for the coming year.

Manufacturing optimism also rebounded in the fourth quarter to 72% after falling to 63% in the third quarter. Hiring expectations for manufacturers remained constant at 2.6%.

Construction optimism improved a full 10% with 80% of this sector's respondents now feeling optimistic about their prospects. Hiring expectations also gained some strength, improving to a rate of 3.0%, up from 2.7% in the third quarter. Real estate and property respondents are also maintaining their level of optimism, now at 78%, after easing slightly earlier in the year.

Expected Employment Change by Industry



Technology optimism improved again this quarter, jumping to 72% after falling to only 56% optimistic in the second quarter and recovering some ground in the third quarter to 64% optimistic. However, technology hiring expectations fell off from a rate of 3.5% in the third quarter to only a 1.4% expected rate of hiring in the fourth quarter.

Professional services optimism also rebounded to 72% now optimistic after falling off to only 50% optimistic in the third quarter.

Healthcare provider optimism improved to 65%, up from only 43% optimistic in the first quarter of 2017. Expected hiring by healthcare providers leads the list in the fourth quarter with an expected rate of 2.9%, up from only 1.8% in the third quarter.

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

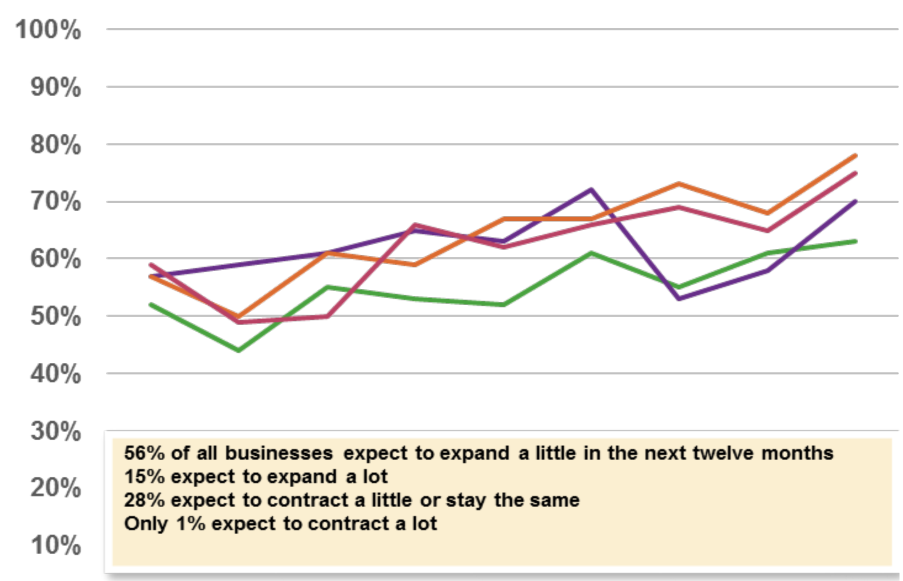
Regional optimism and expansion plans by business size still mixed

In terms of regional perspective, the Midwest maintained its 74% level of optimism, up from 65% in the second quarter. Optimism in the West improved to 73% in the fourth quarter, up from 61% in the third quarter. The South recovered another point to 69% optimistic in the fourth quarter. The Northeast also recovered some ground from 59% in the third quarter to 64% now optimistic.

Expansion plans and hiring plans by size of company also showed improvement:

- The number of companies with revenues < $10 million having expansion plans improved another two points to 63% after falling off in the second quarter to only 55% having plans to expand their business
- Expansion plans for the $10-$100 million range of companies improved to 70%, up from 58% in the third quarter
- The $100 million to <$1 billion range of companies rebounded to 78% optimistic after dropping from 73% in Q2 to 68% in Q3
- The percentage of companies with revenues > $1 billion also rebounded; now 75% have expansion plans for the coming year, after dropping from 69% in the Q2 to 65% in Q3

Expansion Plans by Business Size



	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
< $10 million	52%	44%	55%	53%	52%	61%	55%	61%	63%
$10 to <$100 million	57%	59%	61%	65%	63%	72%	53%	58%	70%
$100 million to <$1 billion	57%	50%	61%	59%	67%	67%	73%	68%	78%
> $1 billion	59%	49%	50%	66%	62%	66%	69%	65%	75%

Top Challenges

Availability of personnel continues to be challenging; domestic competition increases

- Availability of skilled personnel maintained its place at the top of the list; employee and benefits costs moved up a notch to number four
- Domestic competition moved up another spot to number two, while regulatory requirements/changes fell to number three
- Consistent with increasing competition, developing new products, services and markets continues to move up the list, now in fifth; changing customer preferences move up from eighth to seventh on the list of challenges
- Reflecting the sense of optimism, domestic economic conditions fell two places to the sixth spot; domestic political leadership moved up a slot from ninth to eighth
- Staff turnover and materials, supplies and equipment costs rounded out the top ten challenges for the fourth quarter

Top Challenges Facing Organizations

	4Q16	1Q17	2Q17	3Q17	4Q17
1	Regulatory requirements/changes	Employee and benefits costs	Employee and benefits costs	Availability of skilled personnel	Availability of skilled personnel
2	Employee and benefits costs	Regulatory requirements/changes	Availability of skilled personnel	Regulatory requirements/changes	Domestic competition
3	Domestic economic conditions	Availability of skilled personnel	Regulatory requirements/changes	Domestic competition	Regulatory requirements/changes
4	Availability of skilled personnel	Domestic economic conditions	Domestic economic conditions	Domestic economic conditions	Employee and benefits costs
5	Domestic competition	Domestic competition	Domestic competition	Employee and benefits costs	Developing new products/services/markets
6	Developing new products/services/markets	Changing customer preferences	Staff Turnover	Developing new products/services/markets	Domestic economic conditions
7	Domestic political leadership	Domestic political leadership	Developing new products/services/markets	Stagnant/declining markets	Changing customer preferences
8	Changing customer preferences	Developing new products/services/markets	Materials/supplies/ equipment costs	Changing customer preferences	Domestic political leadership
9	Stagnant/declining markets	Staff Turnover	Domestic political leadership	Domestic political leadership	Staff Turnover
10	Staff Turnover	Materials/supplies/ equipment costs	Changing customer preferences	Staff Turnover	Materials/supplies/ equipment costs

Survey Background

The survey was conducted of AICPA Business & Industry members between November 1-28, 2017, and had 800 qualified respondents.

CFOs comprised 43% of the respondents, 21% were Controllers, 11% were CEOs or Presidents, 10% were VP/SVPs, 4% were Directors, 2% were COOs, and 2% were CAOs; the remainder were other executives.

Seventy percent of respondents came from privately owned entities, 14% from publicly listed companies, and 14% from not-for-profits.

Eleven percent came from organizations with annual revenues of $1 billion or more, 23% from organizations with $100 million to under $1 billion in annual revenues, 45% from organizations with $10 million to $100 million and 20% from organizations with under $10 million in revenues.

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