Management Accounting

Association of International Certified Professional Accountants®

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Economic Outlook Survey

4th 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.

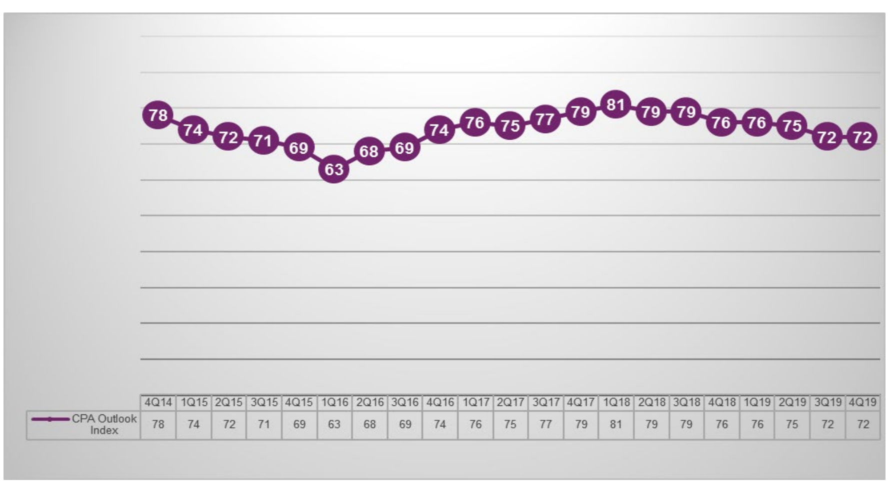
CPA Outlook Index

The CPA Outlook Index (CPAOI) remained constant at 72.

The index component for optimism about the U.S. Economy gained 4 points to 64 but remains down 7 points from fourth quarter 2018.

All index components had mixed results with the exception of Revenue, IT spending and training, which remained flat.

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.

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CPA Outlook Index

Component	4Q18	1Q19	2Q19	3Q19	4Q19	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	71	72	70	60	64	↑04	↓07
Organization Optimism	79	77	75	72	73	↑01	↓06
Expansion Plans	77	76	75	72	71	↓01	↓06
Revenue	83	82	81	76	76	→00	↓07
Profits	77	75	72	70	71	↓01	↓06
Employment	73	71	71	68	70	↑02	↓03
IT Spending	81	80	80	80	80	→00	↓01
Other Capital Spending	73	74	74	74	71	↓03	↓02
Training & Development	74	75	73	72	72	→00	↓02
Total CPAOI	76	76	75	72	72	→00	↓04

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%].

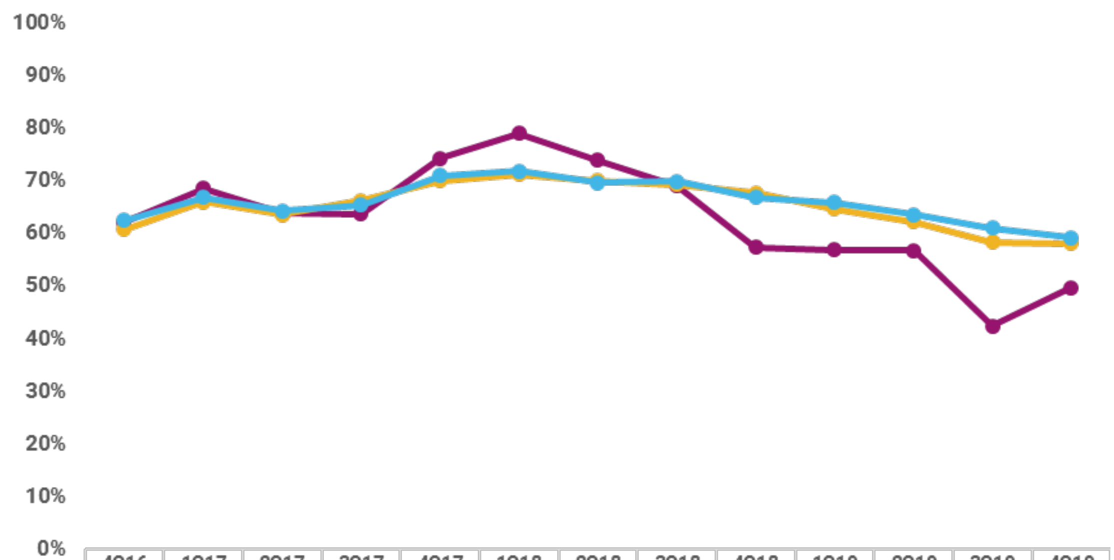
Outlook for the U.S. Economy and Organizations

Optimism for the U.S. Economy improves, organization optimism and expansion stable

In the fourth quarter of 2019 the percentage of CPA executives who are optimistic about the U.S. economy recovered from 42% in the third quarter to now 50% of respondents continuing to be optimistic. Optimism about respondents' own organizations remained constant with the third quarter at 58% optimism. Expansion plans remained relatively strong at 59% but eased another two points from 61% in the third quarter and 63% in the second quarter.

Optimists cite continued overall economic strength, employment, interest rates and availability of capital and consumer spending.
Pessimists cite impact of tariff and trade issues and the upcoming election, along with concern about length of recovery and easing of economic indicators.

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



	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
U.S.	62%	69%	64%	64%	74%	79%	74%	69%	57%	57%	57%	42%	50%
Organization	61%	66%	64%	66%	70%	71%	70%	69%	68%	65%	62%	58%	58%
Expansion	62%	67%	64%	65%	71%	72%	70%	70%	67%	66%	63%	61%	59%

The increased concern about inflation seen during much of 2018 continued to ease, with now only 19% being concerned. The level of concern about deflation also declined from 11% in the third quarter to now only 8% of respondents having that concern.

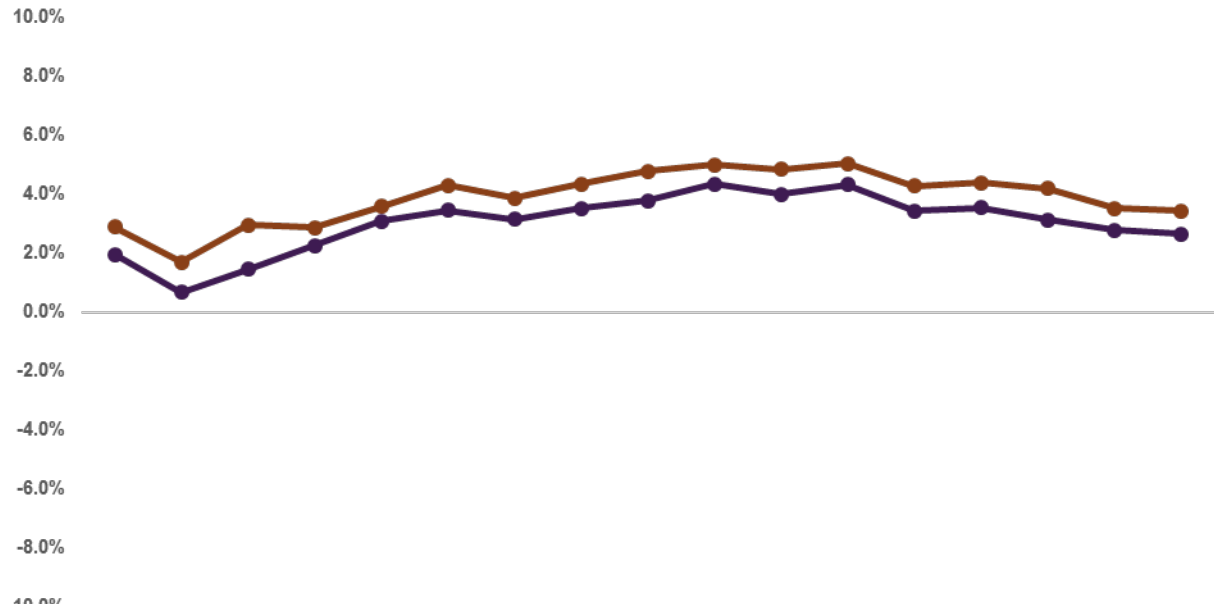
Labor costs continue to be the highest-ranking inflation concern for 47% of respondents, up from 37% in the third quarter. Interest rate concerns eased in the fourth quarter, likely in concert with the fed funds rate decrease. Only 13% now rank interest rates as their top concern, down from 20% of respondents in the third quarter. Raw materials cost concerns also eased to 26% from 32%. Energy cost concerns remained the top concern for only 5%.

Key Performance Indicators

Revenue and profit projections both decline; spending mixed

Revenues are now expected to grow at a rate of 3.4%, down one tenth from 3.5% in the third quarter. Profit expectations also continued to soften, also falling a tenth to only 2.7%.

Expectations for Revenue and Profits



	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
Revenue	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%	3.4%
Profit	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%	2.7%

Reported spending plans for the upcoming twelve months are mixed. IT spending continues to lead the pack, improving a tenth to an expected 3.5% rate of increase. Spending for training is expected to increase at a rate of 1.9%, consistent with the third quarter, However, other capital spending plans came in at an expected rate of only 2.5%, down a half a point from the 3.0% pace expected going forward from the third quarter of 2019.

Marketing spending plans, rebounded further, now expected to increase at a pace of 2.0% up from 1.6% going forward from the third quarter of 2019. Anticipated spending for R&D also continued its rebound, improving three tenths from 1.4% in the third quarter to an expected rate of 1.7% in the fourth quarter.

Salary and benefits cost expectations increased a tenth from 2.4% to a 2.5% expected rate of increase. Expected healthcare cost increases, which continue to be higher than other costs, also inched up a tenth from 5.1% to 5.2%.

Reflecting the lower level of concern about inflation, the expected increase in “other input prices” eased further from 2.4% to 2.3%. On the other side of the equation, the expected ability to increase “prices charged” fell another tenth from 1.9% to 1.8%.

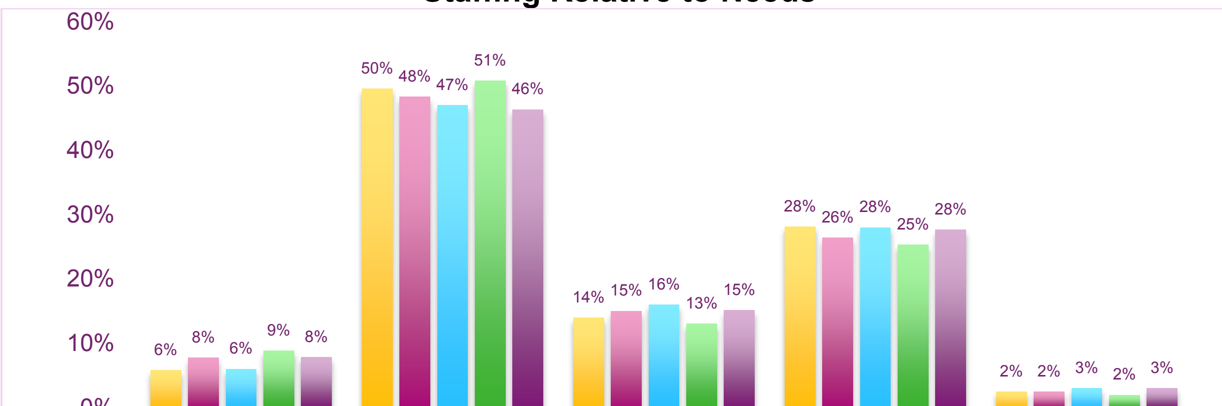
Hiring Plans

More companies need employees and have plans to hire; small companies most reluctant

In this quarter 46% of all companies say they have the appropriate number of employees down 5 points from 51% in the third quarter. Those saying they have an excess number of employees decreased from 9% to 8% overall. The number of companies with revenues in excess of $1 billion having too many employees dropped from 8% in the third quarter to 7% in the fourth quarter.

This quarter, 43% now indicate that they currently have too few employees, up from 38% last quarter. Of these, the percentage of companies that are planning to hire increased 3 points from 25% to 28%. The percentage of those who are reluctant to hire increased 2 points from 13% to 15%.

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

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

- For employers with > $1 billion in revenues, 7% now have excess employees, while 38% have too few. Of those with too few employees, 16% remain hesitant while 22% are planning to hire.
- Of those in the $100 million to $1 billion category, 44% say they have too few employees; 31% are hiring; while 13% are hesitant.
- In the $10 - $100 million range, 46% now have too few employees; of those with too few, 32% have plans to hire; only 14% are hesitant
- Of employers with revenues < $10 million 40% have too few employees, down 7% from Q1; 21% are planning to hire; 19% are hesitant.

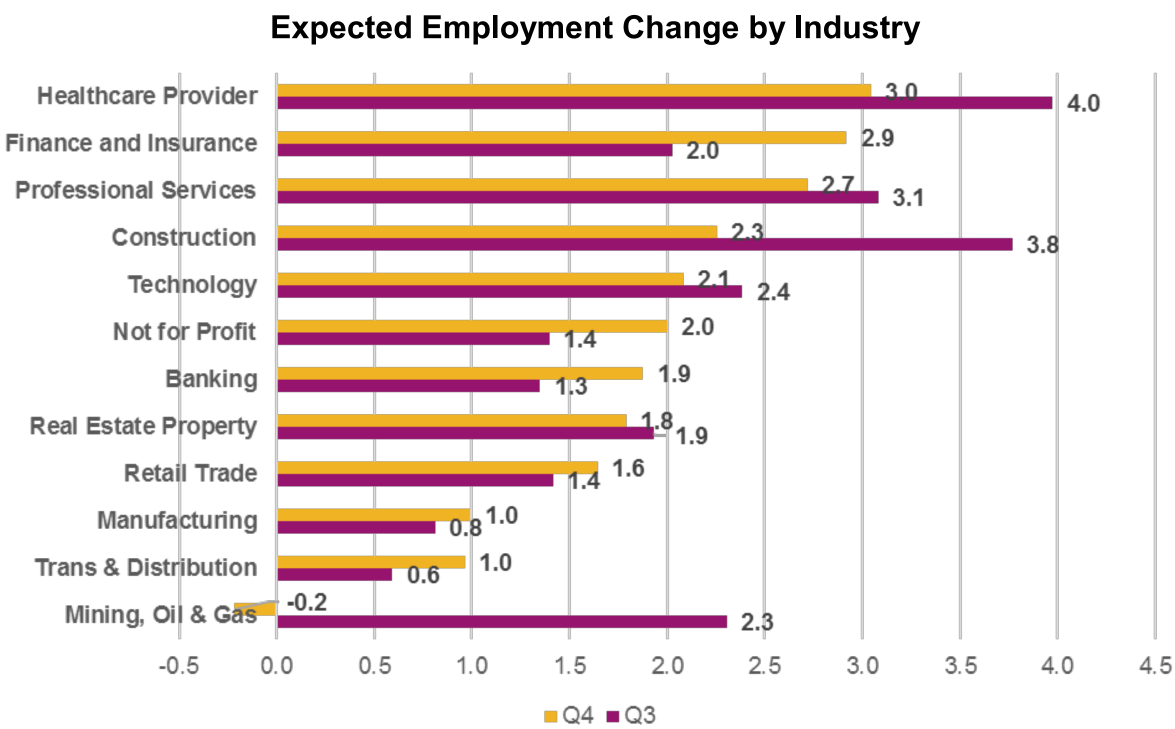
Industry, Region and Business Size Outlook

Retail optimism recovers further; manufacturing rebounds; construction strong, but eases slightly - reflected in hiring

Retail trade optimism recovered further from only 40% optimistic in the second quarter, and 54% in the third, to now 63% optimistic. Retail hiring also gained additional strength from 1.4% to a 1.6% expected rate of increase going forward from the fourth quarter.

Manufacturing optimism rebounded from 51% to 55% optimistic. Similarly, the manufacturing hiring outlook improved from an expected rate of increase in the third quarter of 0.8% to 1.0%.

Construction optimism eased from 76% to 66% optimistic, and hiring is expected to soften, falling from 3.8% to a 2.3% expected rate of increase. Real estate and property optimism jumped from 52% to 69%; hiring eased from 1.9% to 1.8%.



Although expectations for IT spending continue to be strong, IT optimism dropped sharply from 75% to only 48% optimistic. Expected hiring in the IT sector eased three tenths from 2.4% to 2.1%.

Finance and Insurance optimism rebounds from 67% to 75% optimistic; professional services optimism gives back six points from 67% to 61%. Professional services hiring is also expected to slow from a rate of 3.1% in the third quarter to 2.7% going forward from the fourth quarter.

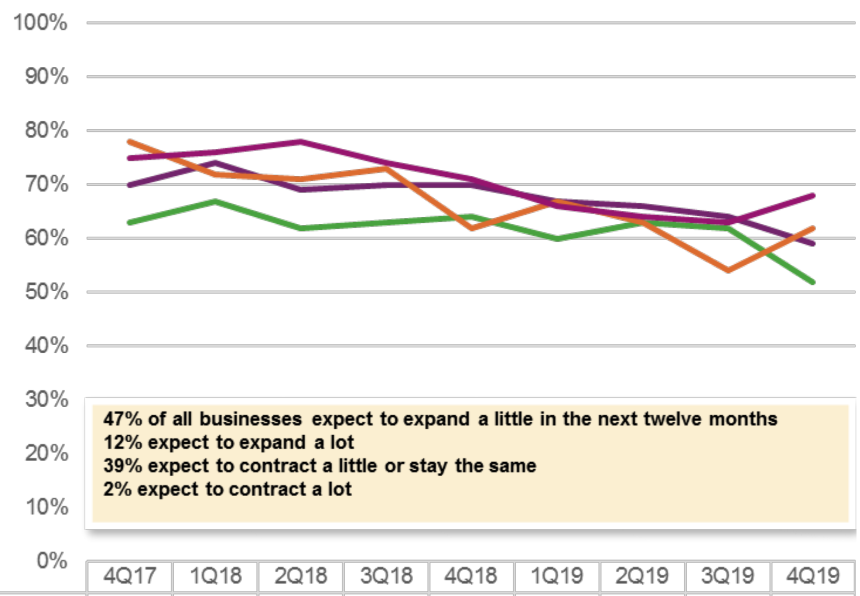
Healthcare optimism rebounded again, to 67%, up from 58% in the third quarter. Healthcare hiring continues to lead the pack but eased from at an expected pace of 4.0% to now a rate of 3.0% going forward from the fourth quarter. Healthcare-other optimism rebounded to 60% after falling to only 42% optimistic in the third quarter.

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

Regional optimism gained in Midwest; while Northeast drops; expansion plans for…

In terms of regional perspective, optimism in the Midwest gained 4 points from 54% optimistic to now 58% optimistic, and optimism in the South remained constant at 61%. On the other hand, optimism in the Northeast dropped from 59% optimistic in the third quarter to 55%. Optimism in the West gained 3 points from 60% to 63% of executives being optimistic about their prospects.

Expansion Plans by Business Size



	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19
< $10 million	63%	67%	62%	63%	64%	60%	63%	62%	52%
$10 to <$100 million	70%	74%	69%	70%	70%	67%	66%	64%	59%
$100 million to <$1 billion	78%	72%	71%	73%	62%	67%	63%	54%	62%
> $1 billion	75%	76%	78%	74%	71%	66%	64%	63%	68%

Expansion plans:

- Expectations for expansion by businesses with revenues < $10 million dropped 10 points to 52%.
- Plans for companies in the $10 - $100 million category eased 5 points to 59%.
- Companies in the $100 million to $1 billion range gained 8 points to 62%.
- Those with revenues in excess of $1 billion gained 5 points from 63% to 68%.

Top Challenges

Availability of skilled personnel continues to be most challenging

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

Top Challenges Facing Organizations

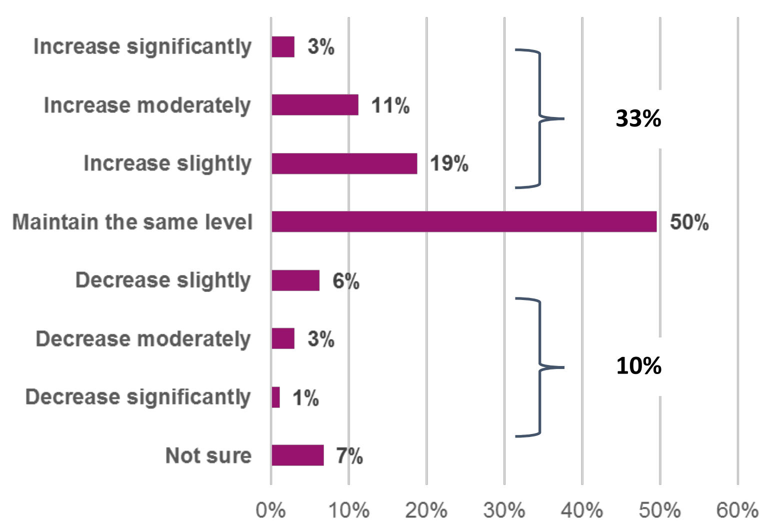
	4Q18	1Q19	2Q19	3Q19	4Q19
1	Availability of skilled personnel	Availability of skilled personnel	Availability of skilled personnel	Availability of skilled personnel	Availability of skilled personnel
2	Employee and benefits costs	Domestic competition	Employee and benefits costs	Domestic economic conditions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

Survey within the Survey

One third of companies planning to increase liquid resources

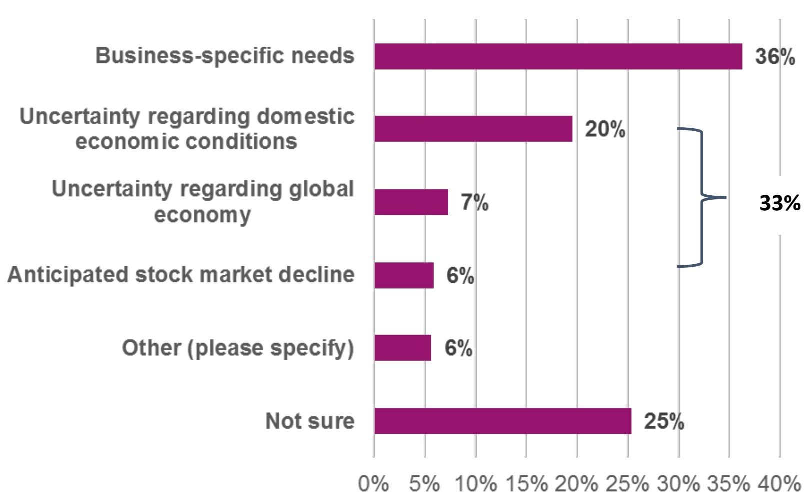
Our survey within the survey this quarter focused on company plans for their liquid resources. In response to the query about whether companies had plans to increase their corporate cash holdings and short-term investments, and to what extent, one-third of our executives indicated plans to increase liquidity at least slightly, while half plan to maintain the same level. Only 10% have plans to decrease liquid resources.

Corporate Liquidity Levels



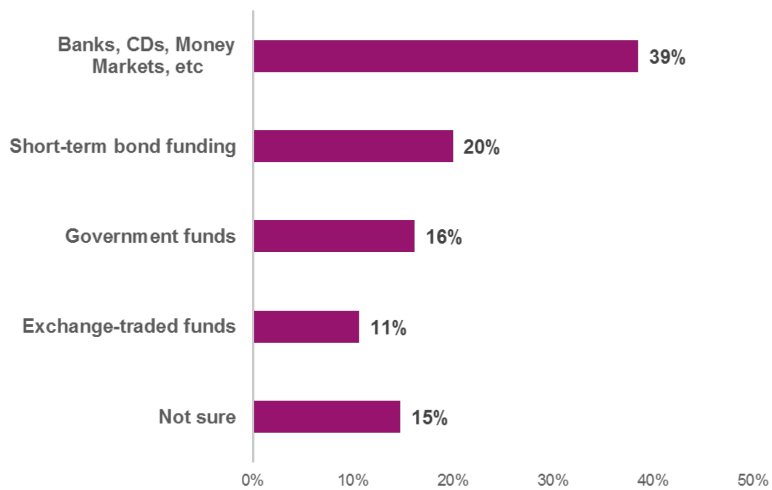
When asked what are the reasons for increasing corporate cash holdings and short-term investments over the next 12 months, thirty six per cent have business-specific needs, while a third indicated uncertainty about domestic or global economic conditions, or an anticipated stock market decline. Those with plans to decrease holdings identified various business purposes ranging from reducing debt and capital expenditures to stock buy-backs.

Rationale for Increased Holdings



In terms of the types of cash and short-term investment holdings, thirty-nine percent indicated various types of bank accounts, certificates of deposit, money market, or similar institutional accounts. Other types of investments included short-term bonds, government funds and exchange-traded funds.

Cash and Short-term Investment Holdings



Survey Background

The survey was conducted of AICPA Business & Industry members between October 31 and November 20, 2019 and had 907 qualified respondents.

CFOs comprised 42% of the respondents, 20% were Controllers, 14% were Presidents, CEOs, or other C-suite titles; 8% were VP/SVPs, 13% were accounting, audit, tax, technology directors or managers; the remainder were other executives.

Sixty seven percent of respondents came from privately owned entities, 15% from publicly listed companies, and 16% from not-for-profits.

Thirteen 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 20% from organizations with under $10 million in revenues.

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