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) improves from 54 to a level of 62.

All index components improve including U.S. economy optimism, organization optimism, expansion plans and employment.

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

<table>
<thead>
<tr>
<th>Component</th>
<th>4Q19</th>
<th>1Q20</th>
<th>2Q20</th>
<th>3Q20</th>
<th>4Q20</th>
<th>ΔQ to Q</th>
<th>ΔY to Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Economic Optimism</td>
<td>64</td>
<td>74</td>
<td>29</td>
<td>37</td>
<td>50</td>
<td>+13</td>
<td>-14</td>
</tr>
<tr>
<td>Organization Optimism</td>
<td>73</td>
<td>78</td>
<td>46</td>
<td>58</td>
<td>66</td>
<td>+08</td>
<td>-07</td>
</tr>
<tr>
<td>Expansion Plans</td>
<td>71</td>
<td>75</td>
<td>33</td>
<td>54</td>
<td>61</td>
<td>+07</td>
<td>-10</td>
</tr>
<tr>
<td>Revenue</td>
<td>76</td>
<td>81</td>
<td>27</td>
<td>51</td>
<td>62</td>
<td>+11</td>
<td>-14</td>
</tr>
<tr>
<td>Profits</td>
<td>71</td>
<td>73</td>
<td>26</td>
<td>47</td>
<td>53</td>
<td>+06</td>
<td>-18</td>
</tr>
<tr>
<td>Employment</td>
<td>70</td>
<td>71</td>
<td>38</td>
<td>54</td>
<td>63</td>
<td>+09</td>
<td>-07</td>
</tr>
<tr>
<td>IT Spending</td>
<td>80</td>
<td>81</td>
<td>59</td>
<td>71</td>
<td>76</td>
<td>+05</td>
<td>-04</td>
</tr>
<tr>
<td>Other Capital Spending</td>
<td>71</td>
<td>74</td>
<td>43</td>
<td>56</td>
<td>66</td>
<td>+10</td>
<td>-05</td>
</tr>
<tr>
<td>Training &amp; Development</td>
<td>72</td>
<td>73</td>
<td>45</td>
<td>56</td>
<td>63</td>
<td>+07</td>
<td>-09</td>
</tr>
<tr>
<td>Total CPAOI</td>
<td>72</td>
<td>76</td>
<td>38</td>
<td>54</td>
<td>62</td>
<td>+08</td>
<td>-10</td>
</tr>
</tbody>
</table>

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>Measure</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Economy Optimism</td>
<td>Respondent optimism about the US economy</td>
</tr>
<tr>
<td>Organization Optimism</td>
<td>Respondent optimism about prospects for their own organization</td>
</tr>
<tr>
<td>Business Expansion</td>
<td>Respondent expectations of whether their business will expand over the next 12 months</td>
</tr>
<tr>
<td>Revenues</td>
<td>Expectations for revenue over the next 12 months</td>
</tr>
<tr>
<td>Profits</td>
<td>Expectations for profits over the next 12 months</td>
</tr>
<tr>
<td>Employment</td>
<td>Expectations for headcount over the next 12 months</td>
</tr>
<tr>
<td>IT Spending</td>
<td>Plans for IT spending over the next 12 months</td>
</tr>
<tr>
<td>Other Capital Spending</td>
<td>Plans for capital spending over the next 12 months</td>
</tr>
<tr>
<td>Training &amp; Development</td>
<td>Plans for spending on employee training and development over the next 12 months</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 U.S. Economy fuels optimism about organization prospects*

Nearly half (49%) of CPA executives are now optimistic about the prospects for their own organization, improving another eight points in the fourth quarter from the second quarter declines we saw in the wake of the coronavirus shutdown.

Expansion plans also improved another 4 points in the fourth quarter to 47%, up from 43% in the third quarter.

Both optimists and pessimists cite the outcome of the election as part of their rationale. On the positive side, consumer demand, stock market rebound, and the possibility of a 2nd stimulus were noted, along with the news about vaccines. Negative concerns included the impact of a second Covid-19 wave, non-compliance with CDC recommendations, and possible additional shutdowns.

**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 ticked up from 20% to 24%, while expectations for prices charged for products and services increased another half-point to 1.4% after falling to only 0.2% in the second quarter.

Concern about deflation eased further from 11% to 7%, which is consistent with expectations for input prices increasing further from a projected increase of 1.8% to 2.3%.

Concern about labor costs as the highest-ranking inflation concern fell off from 37% of respondents in the third quarter to 31% in the fourth quarter. Raw material cost concerns ticked
up from 36% to 39% The jump in concern about food costs as the most significant inflation concern that we saw in the second quarter, dropped back further from 5% in the third quarter to only 2% in the fourth quarter. Interest rate concerns remained flat at 12%, while energy costs jumped 5 points to now being most significant for 11% of respondents.

Key Performance Indicators

Revenue and profit projections move into positive territory; spending plans also reflect improved outlook

Revenues are now projected to increase at a rate of 1.2% form the coming twelve months, up from a projected to decline of -0.6% in the third quarter. Similarly, profits, are now projected to be a positive 0.2%, up from a projected decline of -1.2% in the third quarter.

Expectations for Revenue and Profits

Reported spending plans are also showing improvement. IT spending improved to 2.8%, at least approaching the 3%+ range seen in several quarters prior to the downturn.

Other capital spending is now projected to increase by 1.7%, up from a decrease of -2.0% expected in the second quarter and only a 0.1% increase projected in the third quarter. Training also turned positive, not projected to increase at 0.7%. Marketing spending turned positive, now at .7%, while R&D spending plans turned positive from 0.1% to 0.9%.
Hiring Plans

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

In this quarter, 51% of all companies say they have the appropriate number of employees. The number that currently say that they have an excess of employees, eased further from 16% to 11%.

On the other side of the equation, 34% of our respondents indicated they had too few employees. While 17% are hesitating because of current conditions, 17% are planning to hire in the near future, up from only 7% in the second quarter and 13% in the third quarter.

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

- Of employers with revenues < $10 million, 52% have the right number of employees, 12% have excess; of the 30% with too few, 13% are planning to hire, 17% are hesitant.
- For employers with > $1 billion in revenues, 16% now have excess employees, while 39% have too few. Of those with too few employees, only 14% are planning to hire, while 25% remain hesitant.
- Of those in the $100 million to $1 billion category, 36% say they have too few employees; 24% are hiring; while 12% are hesitant.
- In the $10 - $100 million range, 37% now have too few employees; of those with too few, 19% have plans to hire; 18% are hesitant.
Industry, Region and Business Size Outlook

Optimism declines in retail, manufacturing and construction continue to be positive; hospitality industry and extractive sector still suffering

Retail trade optimism fell off to only 42%, down from 48% optimistic the third quarter. Expectations for retail hiring also fell off from an expected increase of 1.0% going forward from the third quarter, to now a decline of -1.3% in 2021. Wholesale trade, on the other hand, rebounded to 66% optimistic.

Manufacturing optimism eased from 54% to 52% of their executives being optimistic about their prospects, up from only 31% in the second quarter. However, manufacturing hiring plans improved, now expected to increase at a rate of 1.3%, up from a 0.7% rate in the third 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 pandemic. These executives are still projecting a decline of -1.1% in employment, only a slight improvement over the -3.6% projection in the third 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 -1.6% in employment vs. -2.3% in the third quarter.

Expected Employment Change by Industry

As noted above, IT spending plans improved this quarter. However, technology sector optimism gave back some of its third quarter rebound settling from 65% to now 48% optimistic. This is also reflected in a decline in hiring plans from 1.5% looking ahead from the third quarter to a more modest rate in the fourth quarter of 1.1%.
Industry, Region and Business Size Outlook (cont’d)

The outlook for Finance and Insurance jumped from 49% to 65% optimistic; professional services optimism also improved from only 40% to 50%. Professional services employment is now expected to increase at a rate of 1.4%, after a flat outlook in the third quarter.

Healthcare provider optimism continued its improvement to now 56% optimistic. Healthcare-other optimism rebounded from only 38% to now 65% now optimistic; employment plans also rebounded, now expecting a 1.3% projected increase looking ahead into 2021.

In terms of regional perspective, optimism about the prospects for our executives’ organizations all showed further improvement. The Northeast improved from 38% to 51%. The Midwest improved from 37% to 46% now being optimistic. Optimism in the West improved from 42% to 50%, while the South comes in at 52% optimistic, up from 46% in the third quarter.

Expansion Plans by Business Size

Expansion plans across business size all show further improvement after falling off to only a quarter having expansion plans in the second quarter. Large companies show the most improvement with now more than half indicating that they have plans to expand.

We are also seeing some easing in terms of business contraction, but still have 19% saying they have plans to contract a little; fortunately, only 6% need 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 remained solid as #2
- Availability of skilled personnel moves up 1 spot to #3
- Regulatory requirements jump up 2 spots to #4
- Stagnant/declining markets remained in the #5 spot
- Global economic conditions move up 1 spot to #6
- Domestic competition jumps up 2 spots to #7
- Developing new products/services/markets last seen 1Q20 returns to 8th place
- Employee and benefit costs drops 6 spots to #9
- Materials/supplies/equipment costs remained solid as 10th position

Top Challenges Facing Organizations

<table>
<thead>
<tr>
<th>4Q19</th>
<th>1Q20</th>
<th>2Q20</th>
<th>3Q20</th>
<th>4Q20</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Availability of skilled personnel</td>
<td>Availability of skilled personnel</td>
<td>Domestic economic conditions</td>
<td>Domestic economic conditions</td>
<td>Domestic economic conditions</td>
</tr>
<tr>
<td>2 Domestic economic conditions</td>
<td>Domestic competition</td>
<td>Stagnant/declining markets</td>
<td>Domestic political leadership</td>
<td>Domestic political leadership</td>
</tr>
<tr>
<td>3 Domestic competition</td>
<td>Domestic economic conditions</td>
<td>Liquidity</td>
<td>Employee and benefits costs</td>
<td>Availability of skilled personnel</td>
</tr>
<tr>
<td>4 Employee and benefits costs</td>
<td>Domestic political leadership</td>
<td>Global economic conditions</td>
<td>Availability of skilled personnel</td>
<td>Regulatory requirements/changes</td>
</tr>
<tr>
<td>5 Regulatory requirements/changes</td>
<td>Regulatory requirements/changes</td>
<td>Regulatory requirements/changes</td>
<td>Stagnant/declining markets</td>
<td>Stagnant/declining markets</td>
</tr>
<tr>
<td>6 Domestic political leadership</td>
<td>Employee and benefits costs</td>
<td>Domestic political leadership</td>
<td>Regulatory requirements/changes</td>
<td>Global economic conditions</td>
</tr>
<tr>
<td>7 Staff Turnover</td>
<td>Developing new products/services/markets</td>
<td>Financing (access/cost of capital)</td>
<td>Global economic conditions</td>
<td>Domestic competition</td>
</tr>
<tr>
<td>8 Developing new products/services/markets</td>
<td>Staff Turnover</td>
<td>Availability of skilled personnel</td>
<td>Changing customer preferences</td>
<td>Developing new products/services/markets</td>
</tr>
<tr>
<td>9 Stagnant/declining markets</td>
<td>Global economic conditions</td>
<td>Employee and benefits costs</td>
<td>Domestic competition</td>
<td>Employee and benefits costs</td>
</tr>
<tr>
<td>10 Changing customer preferences</td>
<td>Materials/supplies/equipment costs</td>
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<td>Materials/supplies/equipment costs</td>
</tr>
</tbody>
</table>
Survey within the Survey

Pandemic Recovery Issues

Our survey-within-the-survey this quarter again focused primarily on the coronavirus pandemic and issues related to economic recovery.

Election Impact

Our survey this quarter was launched after election day. In order to garner some sense of the possible impact of the election, we asked – with balloting concluded for the 2020 elections, how much does that help lift the fog around business forecasting?

Only 6% of our respondents thought that the likely policies going forward were clearer; another 40% said they could extrapolate some signals from the outcome. Another 26% said it was still too early to tell, while 40% indicated that the fog was not lifted at all because control of the pandemic is the most significant wild card.

![Election Impact on Business Forecasting Uncertainty](image)

Economic Stimulus

We also asked about the need for additional federal economic stimulus and the potential impact on business if another package does not materialize later this year or in early 2021.

A majority (54%) of our respondents indicated the lack of another stimulus package would have a negative impact on their business. Slightly more than a third (34%) said lack of stimulus would not impact their business. Lack of stimulus would favor 7% of our respondents’ businesses, while the 5% balance were unsure.
We also asked about the necessary timeframe for additional stimulus in order to be effective for our respondents’ organizations. The degree of urgency is captured in the following graph:

Timing requirements for additional federal economic stimulus

- **In the next month or two**: 23%
- **3-6 months**: 26%
- **Within 12 months**: 6%
- **It’s already too late**: 3%
- **More stimulus is not needed**: 27%
- **Not sure**: 15%
Survey within the Survey (cont’d)

Pandemic Recovery Issues

Other governmental steps

We also asked respondents to indicate what would be the most helpful governmental steps for your business over the next 12 months? The results when asked to pick the three that would be the most significant are as follows. The percentages reflect the number of respondents that selected that particular option as one of their top three.

Most helpful governmental steps for coming 12 months

- Progress in controlling the COVID-19 pandemic: 83%
- Avoiding overly burdensome regulations: 52%
- Keeping corporate tax rate low: 35%
- Fiscal stimulus targeted to individuals and families: 32%
- Stepped-up business relief programs: 28%
- Infrastructure investment program: 20%
- Fiscal stimulus that includes state and local government aid: 19%
- Maintain current monetary policy: 13%
- Easing of trade tensions: 12%
- Not sure / Other (please specify): 6%

Among the “other” helpful steps, suggestions included:

- Avoid shutdown
- PPP Forgiveness and tax deductibility of the expense
- Avoid Medicare cuts
- Control governmental spending and debt
- No tax increases
- Increasing the corporate tax rate to ~27%; increasing federal rate on income over $500k to 55%
- Incentives for green/solar capital improvements
Survey within the Survey (cont’d)

_Pandemic Recovery Issues_

**Staffing**

We also asked about the current level of staffing versus pre-pandemic levels, and for those whose staffing levels are still below pre-pandemic levels, what the expectations were with respect to a return to those levels. Those results are captured below.

**Current staffing vs. pre-pandemic levels**

- Our staffing exceeds what it was pre-pandemic: 12%
- We’re at the same level: 46%
- We’re down 1-5 percent: 18%
- We’re down 6-10 percent: 9%
- We’re down 11-25 percent: 7%
- We’re down 26-50 percent: 4%
- We’re down more than 50 percent: 3%
- Not sure: 0%

**Staffing – timing of return to pre-pandemic levels**

- Doesn’t apply - we’re already at full staffing or have exceeded pre-pandemic levels: 55%
- In the next quarter: 2%
- In the next half-year: 3%
- In the next 12 months: 8%
- In one to two years: 15%
- We don’t expect to return to pre-pandemic levels within the next few years: 14%
- Not sure: 3%
Survey within the Survey (cont’d)

Pandemic Recovery Issues

As with the previous quarters, the safety of employees and customers is again the top-ranked concern, followed this quarter by uncertainty regarding the lifting or the re-imposition of stay-at-home provisions.

Greatest Current Concern

<table>
<thead>
<tr>
<th>Concern</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety of employees and/or customers</td>
<td>25%</td>
</tr>
<tr>
<td>Uncertainty regarding lifting or reimposition of stay-at-home provisions</td>
<td>25%</td>
</tr>
<tr>
<td>Cash on hand</td>
<td>11%</td>
</tr>
<tr>
<td>Updating technology to reflect a changing business model</td>
<td>7%</td>
</tr>
<tr>
<td>Integrity of supply chain</td>
<td>7%</td>
</tr>
<tr>
<td>Access to capital</td>
<td>2%</td>
</tr>
<tr>
<td>Access to borrowing facilities</td>
<td>2%</td>
</tr>
<tr>
<td>Liability issues</td>
<td>1%</td>
</tr>
<tr>
<td>We haven’t been negatively impacted</td>
<td>16%</td>
</tr>
<tr>
<td>Other</td>
<td>4%</td>
</tr>
</tbody>
</table>

Survey Background

The survey was conducted of AICPA Business & Industry members between November 10 and December 2, 2020 and had 740 qualified respondents.

CFOs comprised 42% of the respondents, 20% were Controllers, 15% were Presidents, CEOs, or other C-suite titles; 7% were VP/SVPs, 14% were accounting, audit, tax, technology directors or managers; the remainder were other executives.

Seventy percent of respondents came from privately owned entities, 12% from publicly listed companies, and 17% from not-for-profits.

Ten percent came from organizations with annual revenues of $1 billion or more, 22% from organizations with $100 million to under $1 billion in annual revenues, 45% from organizations with $10 million to $100 million and 22% from organizations with under $10 million in revenues.