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 02**

The CPA Outlook Index (CPAOI) increased 2 points in the first quarter of 2017 to 76, close to matching the level last seen in the fourth quarter of 2014.

Optimism about the U.S. economy made a jump from 76 to 79, increasing year to year 32 points. Optimism about the prospects for respondents’ own organizations rose 3 points, as did the components for expansion plans, revenue, and employment. Technology and training and development spending also improved. Other capital spending dropped 2 points and profit expectations remained constant.

<table>
<thead>
<tr>
<th>U.S. Economic Optimism</th>
<th>47</th>
<th>59</th>
<th>58</th>
<th>76</th>
<th>79</th>
<th>▲03</th>
<th>▲32</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organization Optimism</td>
<td>63</td>
<td>68</td>
<td>68</td>
<td>74</td>
<td>77</td>
<td>▲03</td>
<td>▲14</td>
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<tr>
<td>Expansion Plans</td>
<td>63</td>
<td>69</td>
<td>72</td>
<td>74</td>
<td>77</td>
<td>▲03</td>
<td>▲14</td>
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<tr>
<td>Revenue</td>
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<td>74</td>
<td>75</td>
<td>78</td>
<td>81</td>
<td>▲03</td>
<td>▲13</td>
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<tr>
<td>Profits</td>
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<td>63</td>
<td>69</td>
<td>74</td>
<td>74</td>
<td>▲00</td>
<td>▲14</td>
</tr>
<tr>
<td>Employment</td>
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<td>63</td>
<td>66</td>
<td>68</td>
<td>71</td>
<td>▲03</td>
<td>▲12</td>
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<tr>
<td>IT Spending</td>
<td>73</td>
<td>76</td>
<td>75</td>
<td>77</td>
<td>78</td>
<td>▲01</td>
<td>▲05</td>
</tr>
<tr>
<td>Other Capital Spending</td>
<td>67</td>
<td>70</td>
<td>71</td>
<td>73</td>
<td>71</td>
<td>▼02</td>
<td>▲04</td>
</tr>
<tr>
<td>Training &amp; Development</td>
<td>67</td>
<td>67</td>
<td>70</td>
<td>71</td>
<td>73</td>
<td>▲02</td>
<td>▲06</td>
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<tr>
<td>Total CPAOI</td>
<td>63</td>
<td>68</td>
<td>69</td>
<td>74</td>
<td>76</td>
<td>▲02</td>
<td>▲13</td>
</tr>
</tbody>
</table>
The CPA Outlook Index

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 Organizations

Optimism increased for economy and organizations; expansion plans also increased

The number of CPA executives who are optimistic about the U.S. economy increased to 69% in the first quarter, the highest since 2004. The percentage of those pessimistic also dropped from 11% to 10%.

Organizational optimism increased from 61% to 66%. The percentage of companies with expansion plans also increased from 62% in the fourth quarter to 67% this quarter.

Concerns about inflation and deflation continue the trend in direction. After falling to only 11% in the third quarter of 2016, 33% of respondents are now concerned about inflation. Conversely, only 3% are now concerned about deflation, dropping from 18% in the second quarter of 2016.

Labor costs continue to be the most pressing concern for 40% of respondents, dropping from 43% in fourth quarter. Raw material cost concerns increased from 20% in fourth quarter to 24%. Interest rate dropped from 23% to 21%. Energy cost concerns dropped to 8%, down from 10% in the fourth quarter of 2016.
**Key Performance Indicators**

*Revenue expectations jump, profit improvement continues*

Expectations for increased revenues jumped to 4.3% from 3.6% in the fourth quarter of 2016. Expectations for profits in the coming year continued their rebound, improving to 3.5%, up from 3.1% in the fourth quarter and 2.3% in the third quarter.

*Expectations for Revenue and Profits*

IT continues to be the strongest category of planned spending over the upcoming twelve months and increased to 3.0% after rising to 2.9% in the fourth quarter. Other capital spending plans dropped from 2.7% in the fourth quarter to 2.6% in the first quarter. Spending for training and development improved to 1.8% from 1.6% in the fourth quarter.

Expectations for healthcare cost increases continue to be higher than other costs, however, dropping to 5.6% from 6.1% in the previous quarter back to previous levels.

The expected increase in “other input prices” maintained at 2.4% in the first quarter of 2017. The expected ability to increase “prices charged” improved only slightly from 1.8% in the fourth quarter to 1.9% in the first quarter.
**Hiring Plans**
*Improved profitability and expansion plans also having positive impact on employment*

In this quarter, 52% of all companies now say they have the appropriate number of employees. Those saying they have an excess number of employees eased this quarter from 9% to 8%.

More than a third (38%) indicate that they currently have too few employees. Of these, the percentage of companies that are planning to hire gained two points from 20% in the fourth quarter to 22% in the first quarter. The percentage of those who are reluctant to hire increased from 15% in the fourth quarter to 16% in the first quarter.

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**Staffing Relative to Needs**

![Chart showing staffing relative to needs](chart.png)

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**Industry, Region and Business Size Outlook**
*Optimism improves in most sectors except retail; including manufacturing and construction*

Retail trade dropped from 50% to 38% of respondents being optimistic in the first quarter. Retail hiring continues to be soft, eased slightly to 0.8% from <0.3%> in the first quarter. Wholesale trade optimism, however, jumped from 48% in the third quarter to 79%.

Manufacturing optimism improved from 55% to 71% in the first quarter. Hiring in the manufacturing sector also improved from 1.7% to 2.1%.
Real Estate optimism also improved to 79% in the first quarter, up from 69% in the fourth quarter. Construction optimism dropped a point to 74%, down from 75% in the fourth quarter of 2016. The expected increase in construction headcount improved from 2.0% to 2.8% in the first quarter.

Finance and Insurance optimism improved from 66% in the fourth quarter to 79% in the first quarter. Hiring in the Finance and Insurance sector gained its expected rate of increase at 2.0%. However, hiring plans in the Banking sector dropped, now with an expected increase of 1.8%, down from 2.3% in the fourth quarter.

Technology optimism eased slightly from 67% in the fourth quarter to 65% in the first quarter. Anticipated Technology hiring returned to a more normal level of 3.0% in the first quarter, after dropping to 2.0% in the fourth quarter.

Professional Service optimism improved sharply from 48% in the fourth quarter to 66% in the first quarter. Hiring in the professional service sector also improved to 3.9% in Q1.

Healthcare provider optimism fell off from 66% in the fourth quarter to only 43% optimistic in the first quarter of 2017. Healthcare-other respondent optimism dropped from 80% in the fourth quarter to 70% in the first.

In terms of regional perspective, the South improved from 68% optimistic in the fourth quarter to 71% in the first quarter. The Midwest also improving from 62% to 65% optimistic in the first quarter. The West improved from 59% to 68%, while the Northeast improved a point from 56% to 57%.
Industry, Region and Business Size Outlook (cont’d)

Expansion plans and hiring plans by size of company were similarly mixed:

- The number of companies with revenues < $10 million having expansion plans improved to 61%, up from 52% in the fourth quarter;
- Expansion plans for the $10-$100 million range of companies improved to 72%; up 9 points from 63% in the fourth quarter
- The $100 million to <$1 billion range of companies maintained 67% from the fourth quarter
- The percentage of companies with revenues > $1 billion having expansion plans improved to 66% now indicating they have expansion plans for the coming year

**Expansion Plans by Business Size**

- Employers with > $1 billion in revenues is the segment with the highest percentage of respondents with excess employees (8%); they also had too few employees (34%). However, 19% of these largest companies with too few employees are hesitant to hire.
- Employers with revenues < $10 million are also mixed - only 7% have excess employees. However, while 33% have too few employees, only 18% are planning to hire; 15% are hesitant.
- Employers with revenues in the $100 million to $1 billion category are showing strongest hiring plans; of the 39% with excess employees 23% have plans to hire.
Top Challenges
Primary challenges to business remain relatively consistent

For the most part, the factors that our respondents identified as major challenges to their business remained relatively constant in the fourth quarter.

- Employee and benefit costs jumped one spot to the first place in the ranking of challenges
- Regulatory requirements slipped to the second place of the challenges list
- Domestic economic conditions fell another slot this quarter to number four, while availability of skilled personnel returned to the third place
- Domestic competition maintained in the fifth place
- Changing customer preferences moving up from eighth to the sixth place, switching places with developing new products/services/markets which dropped two places down to the eighth place
- Domestic political leadership remained in the seventh spot
- Staff turnover moved up one to ninth in challenges
- Materials/supplies/equipment costs similarly returned to the top ten for the first time since Q2 2015
Survey within the Survey

Vast majority expect lower federal corporate income taxes

When asked whether they expect the new administration’s proposal to lower federal corporate income taxes will be enacted this year, 31% indicated that they did. An additional 50% said they expected enactment eventually, but not until at least 2018. Only 11% said they did not expect enactment, with the balance being unsure. A potential reduction would have a positive impact on 51% of respondent companies and a negative impact on only 2%.

For those who would have a positive impact, 40% indicated they would likely increase capital expenditures and business expansion spending. An additional 20% would they would hire more full-time (17%) or part-time workers (3%), and 11% indicated they might acquire or merge with another company. With respect to deploying the savings on ownership-related transactions 27% said they would pay down debt, 17% would issue or increase dividends, and 6% would buy back stock.

Other deployment responses included compensation-related options such as increasing bonuses, incentive compensation, wages and profit-sharing benefits, and business investment related options, including building capital to support growth, developing new products and increasing R&D spending.

**Most Likely Tax Savings Deployment Options**

![Bar Chart](image-url)
Survey Background
The survey was conducted of AICPA Business & Industry members between February 7-22, 2017 and had 930 qualified respondents.

CFOs comprised 41% of the respondents, 20% were Controllers, 9% were CEOs or Presidents, 10% were VP/SVPs, 2% were COOs and 2% were CAOs; the remainder were Directors or other executives.

Sixty-six 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, 20% 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.