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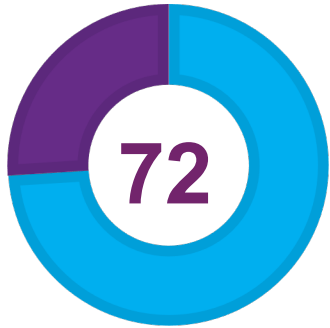
# AICPA Business and Industry Economic Outlook Survey

Detailed Survey Results: 3Q 2019

# Survey Background

- Conducted between July 30-August 21, 2019
- Quarterly survey
- CPA decision makers
  - primarily CFO's, CEOs and Controllers
- AICPA members in Business & Industry
- 755 qualified responses

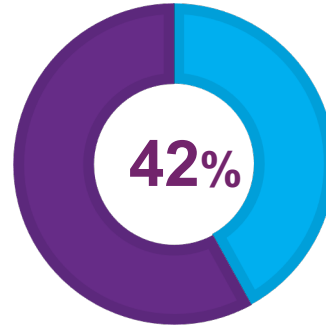
# Survey Highlights



Overall index drops three points to 72

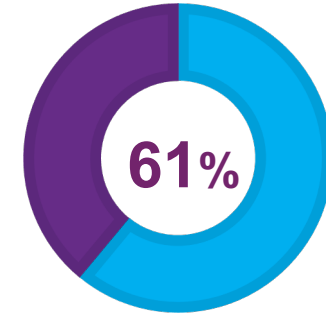
All components down from Q2 with the exception of technology spending and other capital spending which were flat

US Economy component now the lowest component at 60, down from 79 in Q3 2018.



Percentage optimistic about U.S. Economy dropped from 57% to 42%

Global optimism falls to only 24% optimistic, down from 35% in Q2.



Expansion plans relatively firm

Overall expansion plans decline slightly from 63% to 61%.

Employment plans ease, availability of skilled personnel and turnover remain significant challenges.

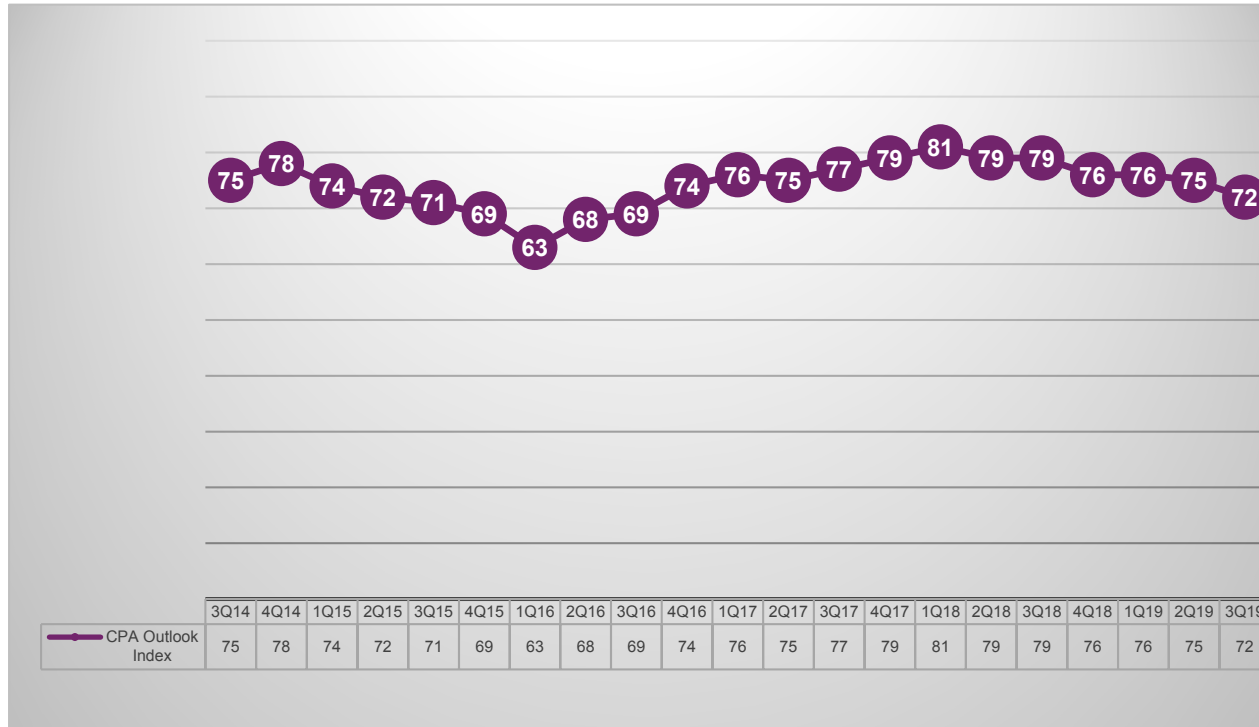
# CPA Outlook Index (CPAOI)

The CPA Outlook Index is the composite of the following nine indicators at equal weights:

- U.S. Economy Optimism - Respondent optimism about the U.S. economy
- Organization Optimism - Respondent optimism about prospects for their own organization
- Expansion Plans - Respondent expectations of whether their business will expand over the next 12 months
- Revenue - Expectations for increases or decreases in revenue over the next 12 months
- Profits - Expectations for increases or decreases in profits over the next 12 months
- Employment - Expectations for increases or decreases in 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

The CPA Outlook Index 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.

# CPA Outlook Index (CPAOI)



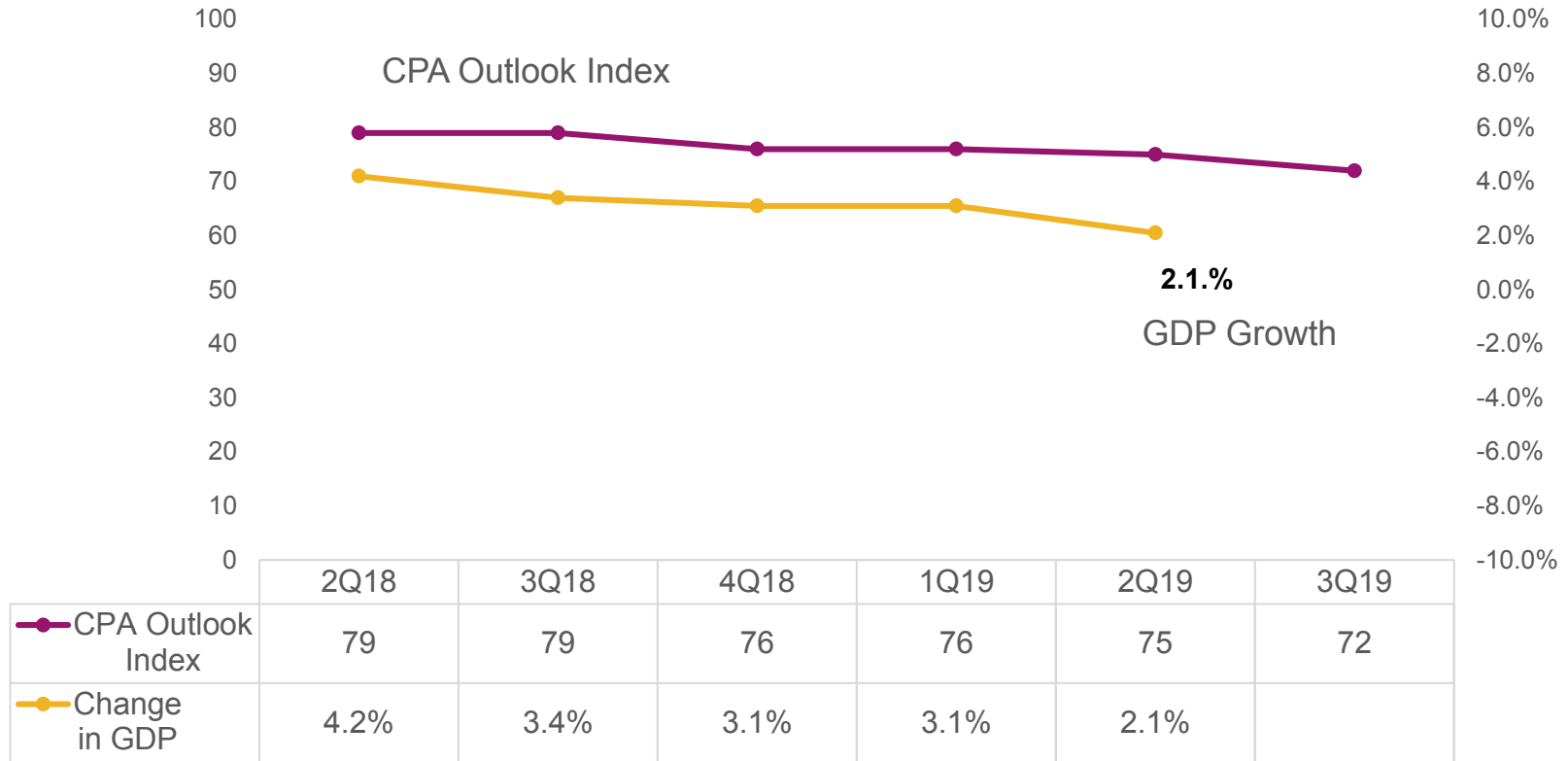
A reading above 50 indicates a generally positive outlook with increasing activity.

A reading below 50 indicates a generally negative outlook with decreasing activity.

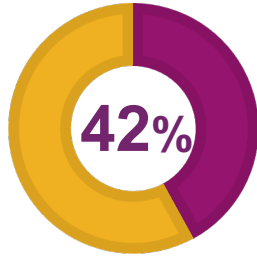
# CPA Outlook Index (CPAOI)

Component	3Q18	4Q18	1Q19	2Q19	3Q19	ΔQ to Q	ΔY to Y
U.S. Economic Optimism	79	71	72	70	60	↓10	↓19
Organization Optimism	81	79	77	75	72	↓03	↓09
Expansion Plans	80	77	76	75	72	↓03	↓08
Revenue	85	83	82	81	76	↓05	↓09
Profits	79	77	75	72	70	↓02	↓09
Employment	76	73	71	71	68	↓03	↓08
IT Spending	82	81	80	80	80	→00	↓02
Other Capital Spending	78	73	74	74	74	→00	↓04
Training & Development	75	74	75	73	72	↓01	↓03
Total CPAOI	79	76	76	75	72	↓03	↓07

# CPA Outlook Index (CPAOI) vs. GDP



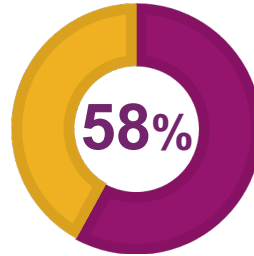
# U.S. Economy, Organization and Inflation



## Optimism for U.S. economy falls 15 points

Optimists cite continued overall economic strength, consumer spending and construction.

Pessimists cite impact of tariff and trade issues, along with concern about length of recovery and ongoing political divisiveness.

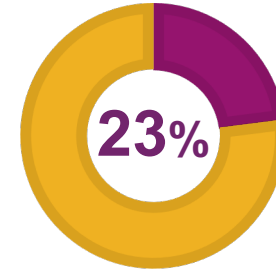


## Organization optimism eases 4 more points

Optimism for respondent's own organization eases another four points from 62% to 58% optimistic.

Expansion plans ease from 63% having plans to 61%.

The percentage of companies expecting their businesses to contract increased to 17%.



## Concern about inflation dropped to 23%; concern about deflation jumped to 11%

Concern about labor costs continues to be most significant at 37%

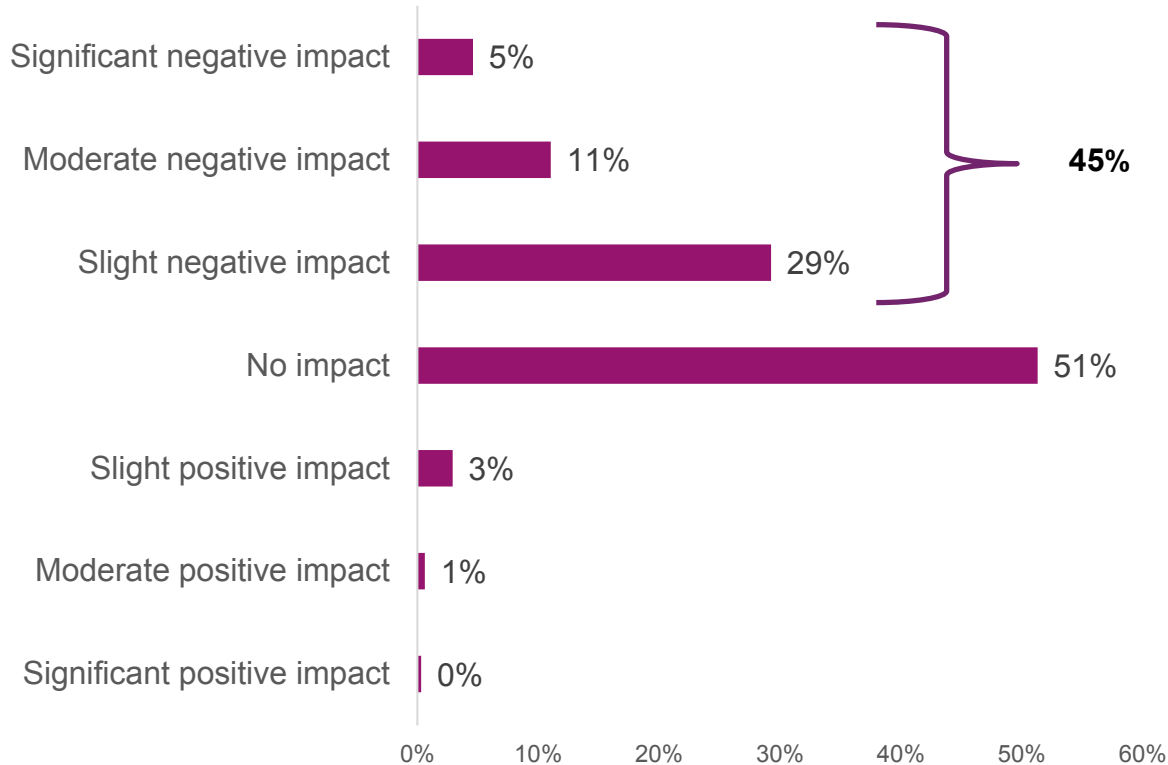
Raw materials cost concerns gained 3 points to 32%

Interest rate concerns returned to 20%, up from 18%.

Energy cost concerns eased from 7% to 5%.

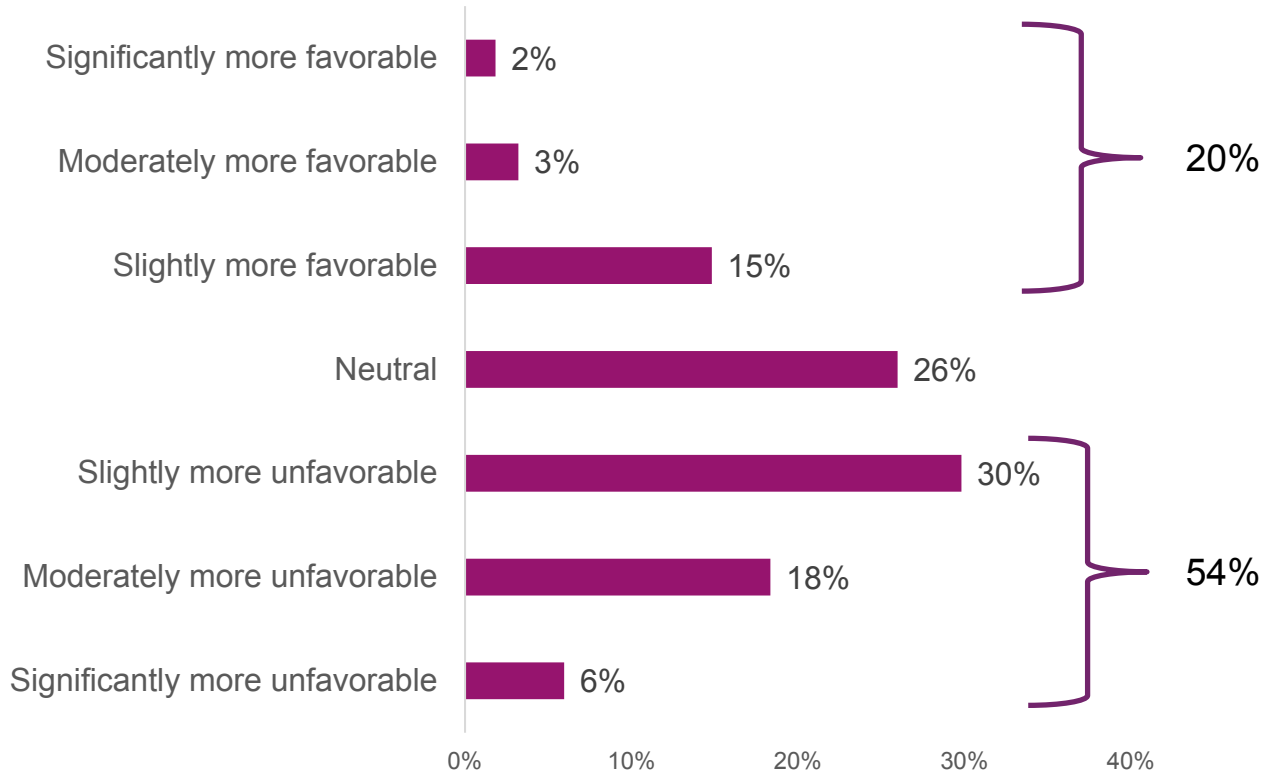


# Global Trade Conflicts– Impacts



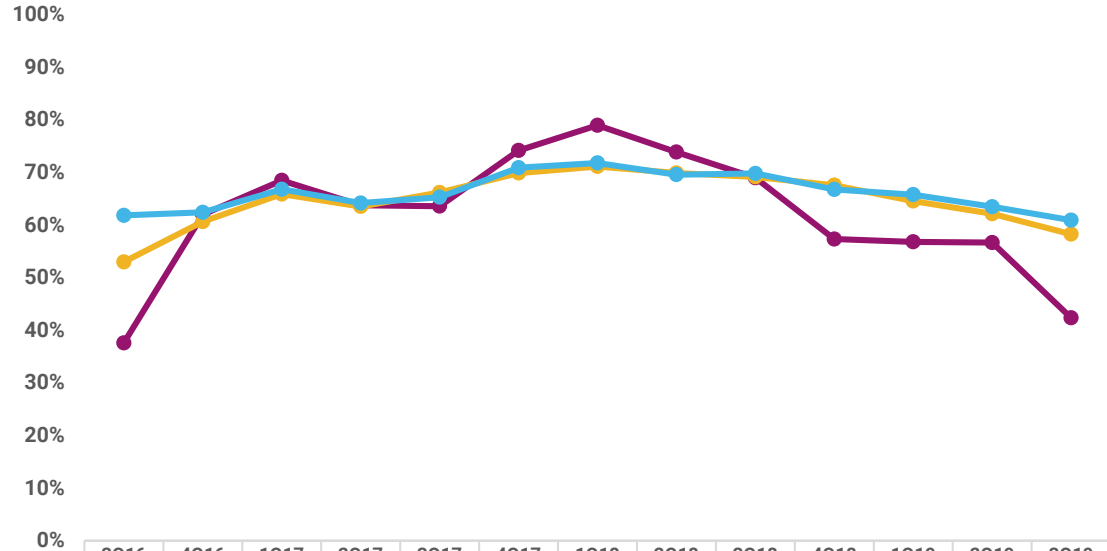
**Has your business suffered any impact from trade conflicts in the past 12 months? If so, how big?**

# Global Trade Conflicts– Outlook



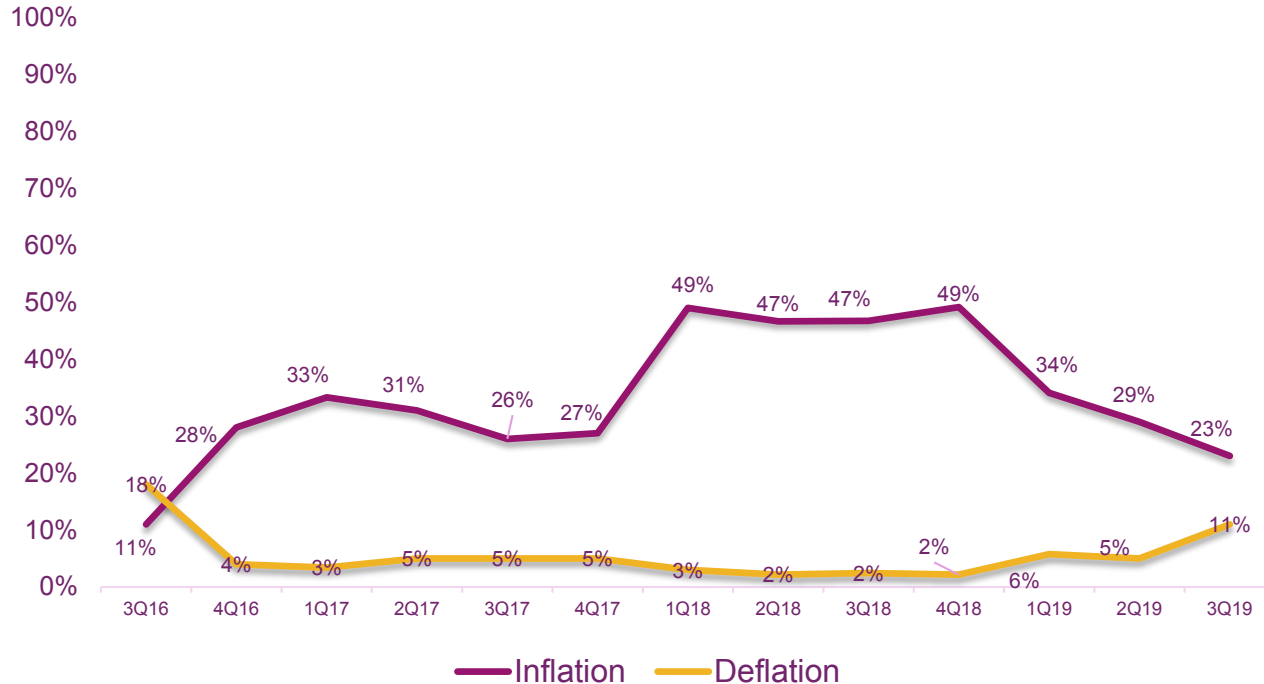
**What is your outlook on global trade conditions over the next 12 months as compared to the past year?**

# Optimism & Expansion



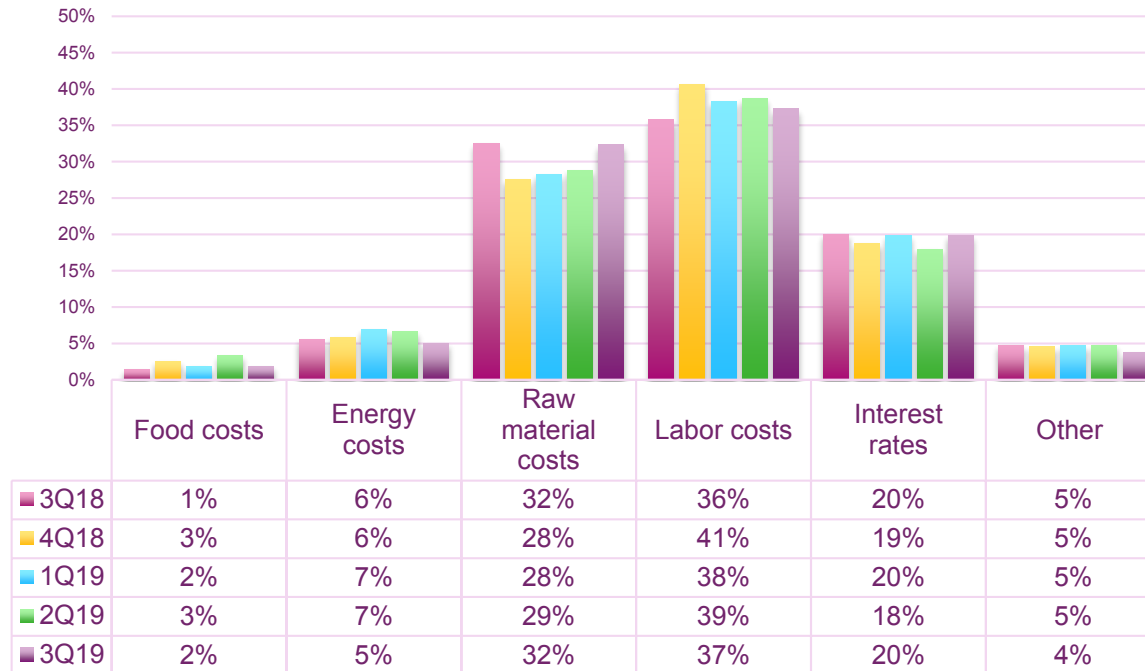
The economic outlook for the U.S. economy, your organization, and the expansion plans over the next 12 months

# Inflation or Deflation



For your business, over the next 6 months, which are you more concerned about? Inflation or deflation?

# Inflationary Risk Factors



Which of the following potential inflationary factors represents the most significant risk to your business?

# Key Performance Indicators

## Revenues and Profits

Revenue and profit projections both fall

Expected revenue for coming twelve months decreased from 4.2% in Q2 to 3.5% in Q3

Profit projections declined from 3.1% in Q2 to 2.8% in Q3

## Hiring and Employment

Headcount plans ease slightly; healthcare cost projections remain constant

Anticipated rate of headcount increase eased from 1.9% to 1.7%

Salary and benefit expected cost eases three tenths to 2.4%

Healthcare cost projections remained constant with Q2 at an expected rate of increase at 5.1%

## Spending Plans

Spending plans mixed

Expected rate for IT spending constant at 3.4%

Other capital spending also constant at 3.0%

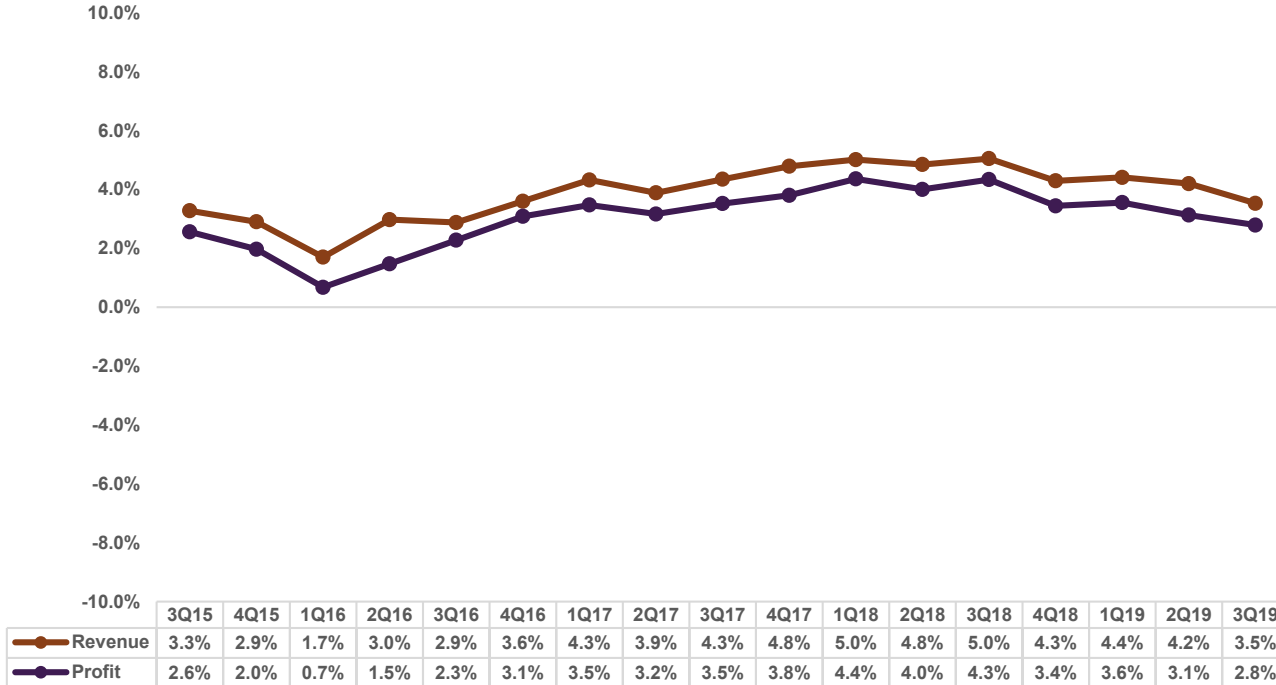
Expected rate of increase for training softens from 2.1% to 1.9%

Marketing spending plans constant at 1.6%

R&D spending plans ease a tenth from a 1.5% rate to 1.4%

# Key Performance Indicators

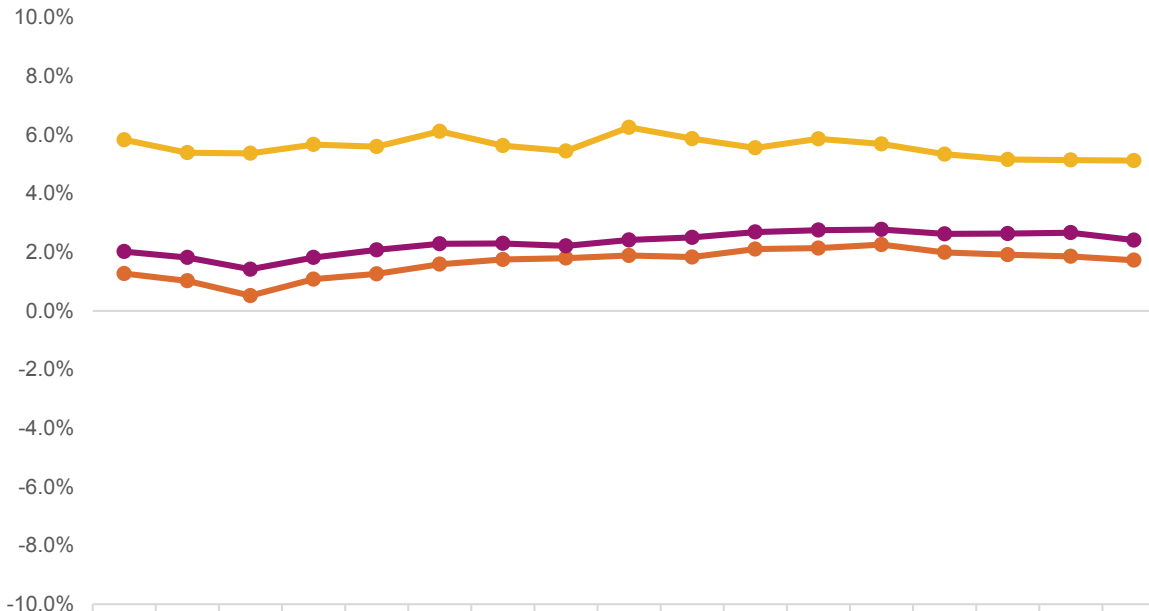
## Expected Growth in Revenue and Profits



Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators

# Key Performance Indicators

## Employees, Salary & Benefits, and Healthcare Costs

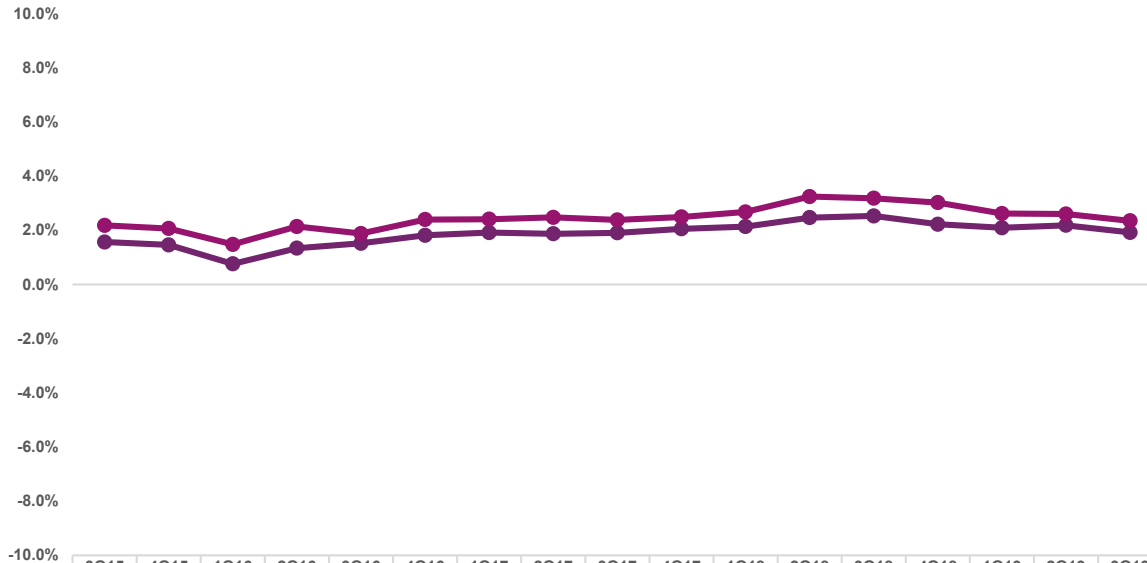


Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators



# Key Performance Indicators

## Pricing & Other Costs Average Change Expected

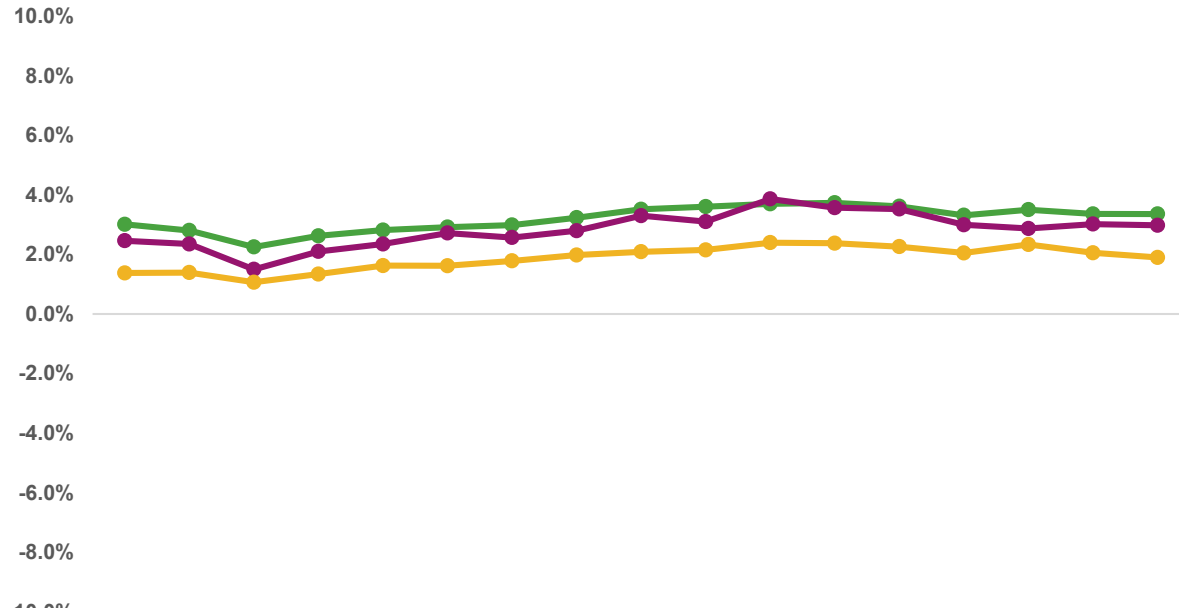


Prices Charged	1.6%	1.5%	0.8%	1.3%	1.5%	1.8%	1.9%	1.9%	1.9%	2.1%	2.1%	2.5%	2.5%	2.2%	2.1%	2.2%	1.9%
Input Prices	2.2%	2.1%	1.5%	2.1%	1.9%	2.4%	2.4%	2.5%	2.4%	2.5%	2.7%	3.2%	3.2%	3.0%	2.6%	2.6%	2.4%

Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators

# Key Performance Indicators

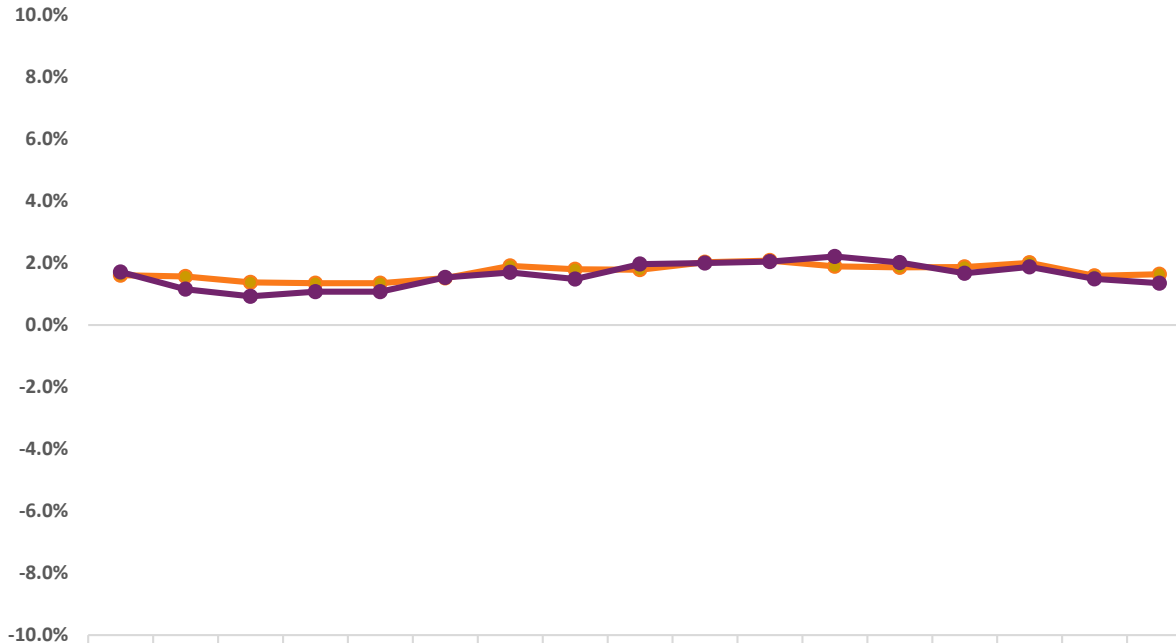
## Spending Plans - IT, Other Capital & Training



	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
IT	3.0%	2.8%	2.3%	2.6%	2.8%	2.9%	3.0%	3.2%	3.5%	3.6%	3.7%	3.7%	3.6%	3.3%	3.5%	3.4%	3.4%
Other Capital	2.5%	2.4%	1.5%	2.1%	2.4%	2.7%	2.6%	2.8%	3.3%	3.1%	3.9%	3.6%	3.5%	3.0%	2.9%	3.0%	3.0%
Training	1.4%	1.4%	1.1%	1.3%	1.6%	1.6%	1.8%	2.0%	2.1%	2.2%	2.4%	2.4%	2.3%	2.0%	2.3%	2.1%	1.9%

Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators

# Key Performance Indicators Spending Plans Marketing & R&D

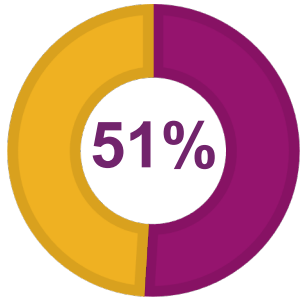


Marketing	1.6%	1.6%	1.4%	1.4%	1.4%	1.5%	1.9%	1.8%	1.8%	2.0%	2.1%	1.9%	1.9%	1.9%	2.0%	1.6%	1.6%
R&D	1.7%	1.2%	0.9%	1.1%	1.1%	1.5%	1.7%	1.5%	2.0%	2.0%	2.0%	2.2%	2.0%	1.7%	1.9%	1.5%	1.4%

Thinking about the coming 12 months, please comment on the probable change for your organization for each of the following key performance indicators

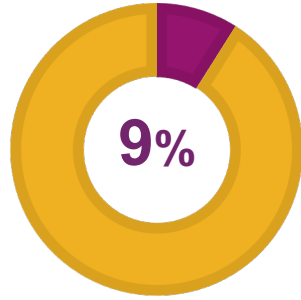
# Hiring Plans

Remain relatively strong



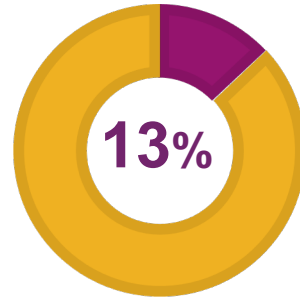
Have right  
number of  
employees

Up 4 points  
from Q2



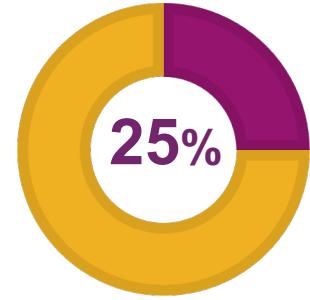
Have an excess  
of employees

Up 3 points from  
Q2



Have too few, but  
hesitating to hire

Down 3 points  
from Q2

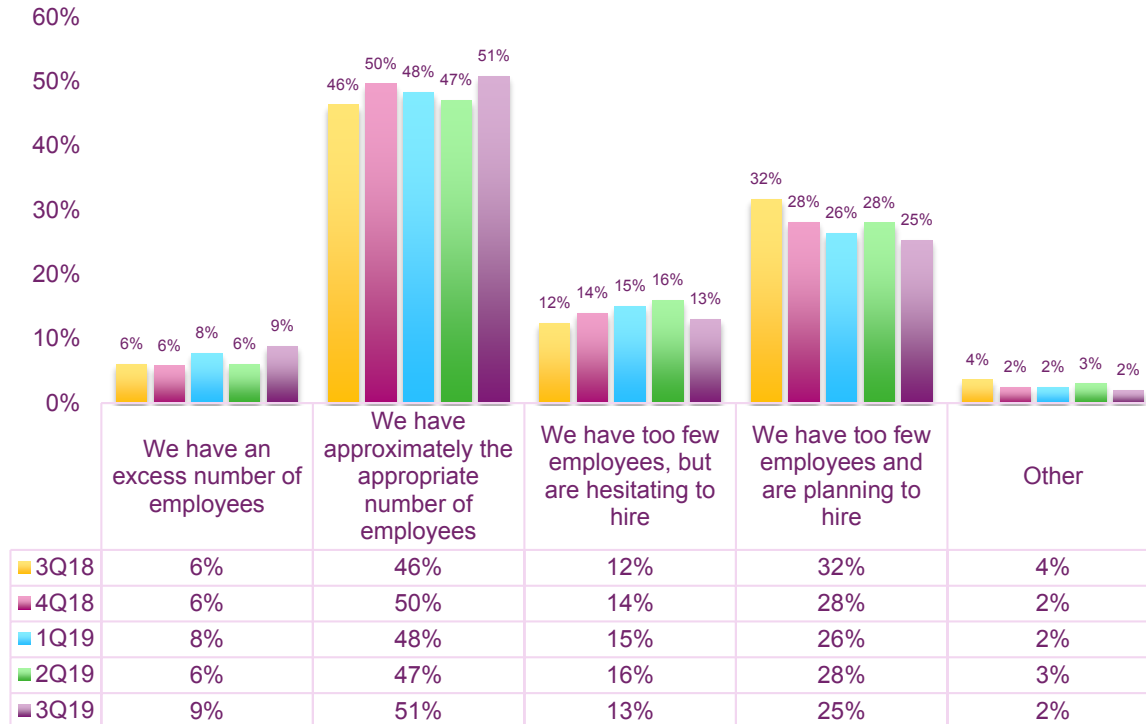


Have too few and  
planning to hire

Down 3 points  
from Q2

# Hiring Plans

## Overall staff situation relative to your needs



Given current conditions, how would you characterize your overall staffing situation relative to your needs

(i.e., do you have excess capacity or are employees stretched)?

# Top Challenges Facing Organizations

- Availability of skilled personnel continues as the top challenge
- Domestic economic conditions jump 4 spots to #2
- Domestic political leadership jumps 5 spots to #3
- Domestic competition drops 1 spot to #4
- Employee and benefit costs drops 3 spots to #5
- Regulatory requirements drop 2 spots to #6
- Staff turnover drops to 7<sup>th</sup> place
- Stagnant/declining markets re-enters in the 8<sup>th</sup> spot after falling off 4Q2017
- Developing new products and services remains the same in the 9<sup>th</sup> place position
- Changing customer preferences stays the same in the 10<sup>th</sup> position

Indication of the top three challenges for your organization

# Top Challenges

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

# Industry, Region and Business-size Outlook



Retail trade recovers; wholesale trade falls

**Retail trade** recovers from 40% to 54% optimistic

**Wholesale trade** drops further from 75% to only 52% optimistic

Hiring for retail is expected to be slightly improved, increasing at a rate of 1.4% for the coming twelve months, vs. 1.2% in Q2

Manufacturing constant; Technology gains

**Manufacturing** optimism continues to decline from 57% to 51% optimistic

**Technology** gains another 5 points from 70% optimistic to 75%

Manufacturing hiring is expected to soften, falling from a rate of 1.9% in Q2 to only 0.8% going forward from Q3.

Technology hiring improved a tenth to 2.4%

Construction and Real Estate improve

**Construction** optimism eased from 83% to 76% optimistic

**Real Estate and Property** also fell from 67% to 52% optimistic

Construction hiring continues to be strong improving from 3.1% to a 3.8% rate of increase.

Real Estate hiring expectations also improved from 1.5% in Q2 to 1.9%.



# Industry, Region and Business-size Outlook



Finance &  
Insurance and  
Professional  
gains; Services  
hiring eases

**Finance and Insurance** optimism dropped from 77% to 67% optimistic

**Professional Services** recovered another 6 points from 61% optimistic to 67%

Finance and insurance hiring is also expected to ease to only 2.0%.

Professional services hiring also improved from 2.9% in Q2 to 3.1% in Q3.

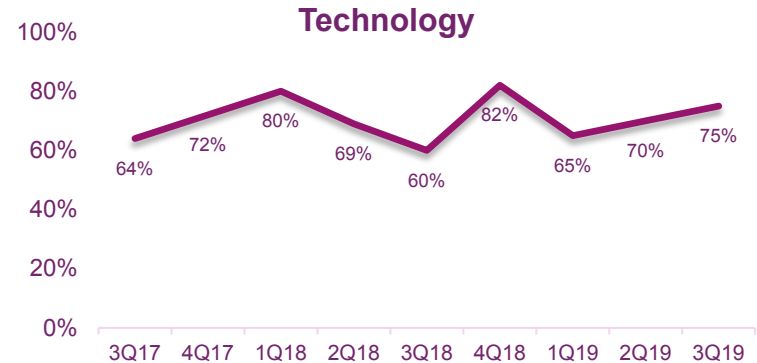
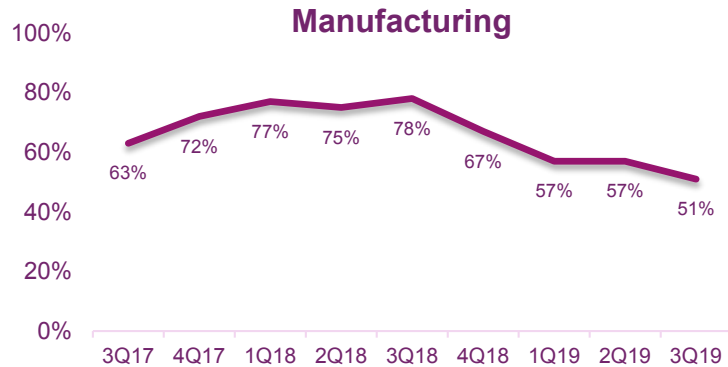
Healthcare  
providers and  
Healthcare –  
others both  
improve

**Healthcare provider** optimism eased from 63% in Q2 to 58%

**Healthcare – other** optimism also declined from 57% optimistic to 42%

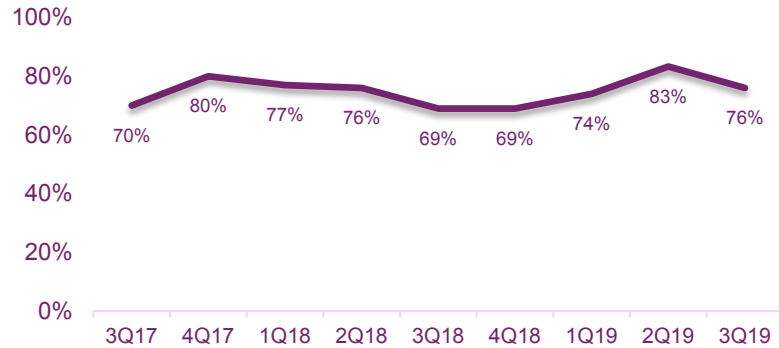
Expected hiring by Healthcare providers tops the list in Q3, but increasing another 2 tenths to 4.0%.

# Organization Optimism by Industry

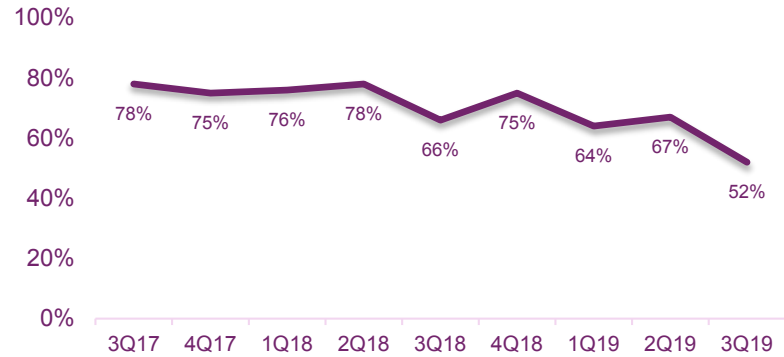


# Organization Optimism by Industry

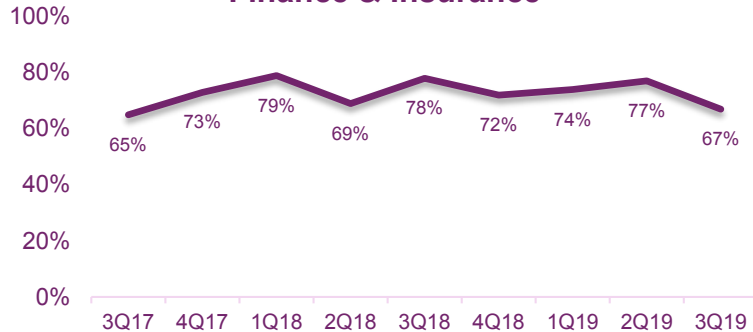
## Construction



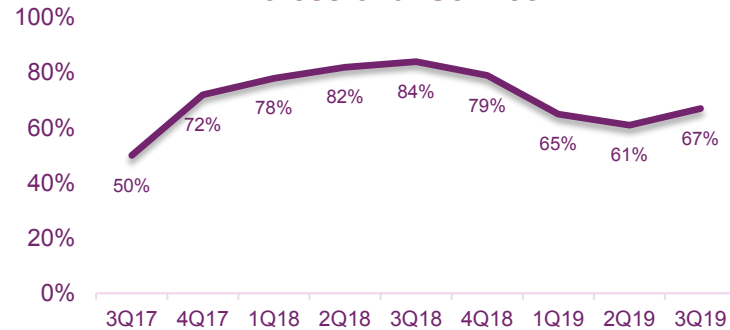
## Real Estate & Property



## Finance & Insurance

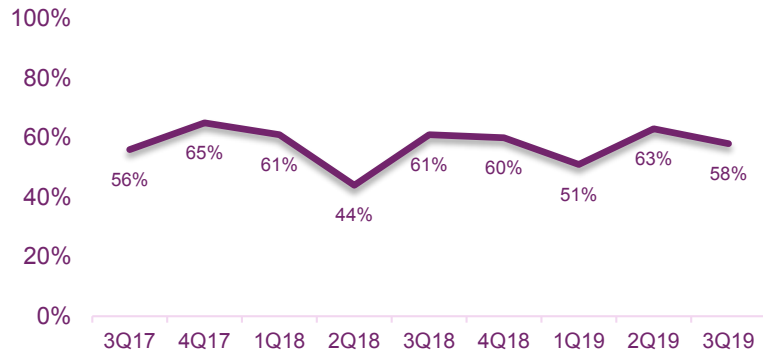


## Professional Service

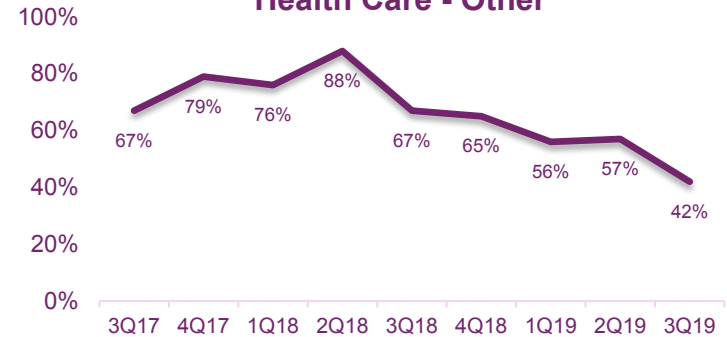


# Organization Optimism by Industry

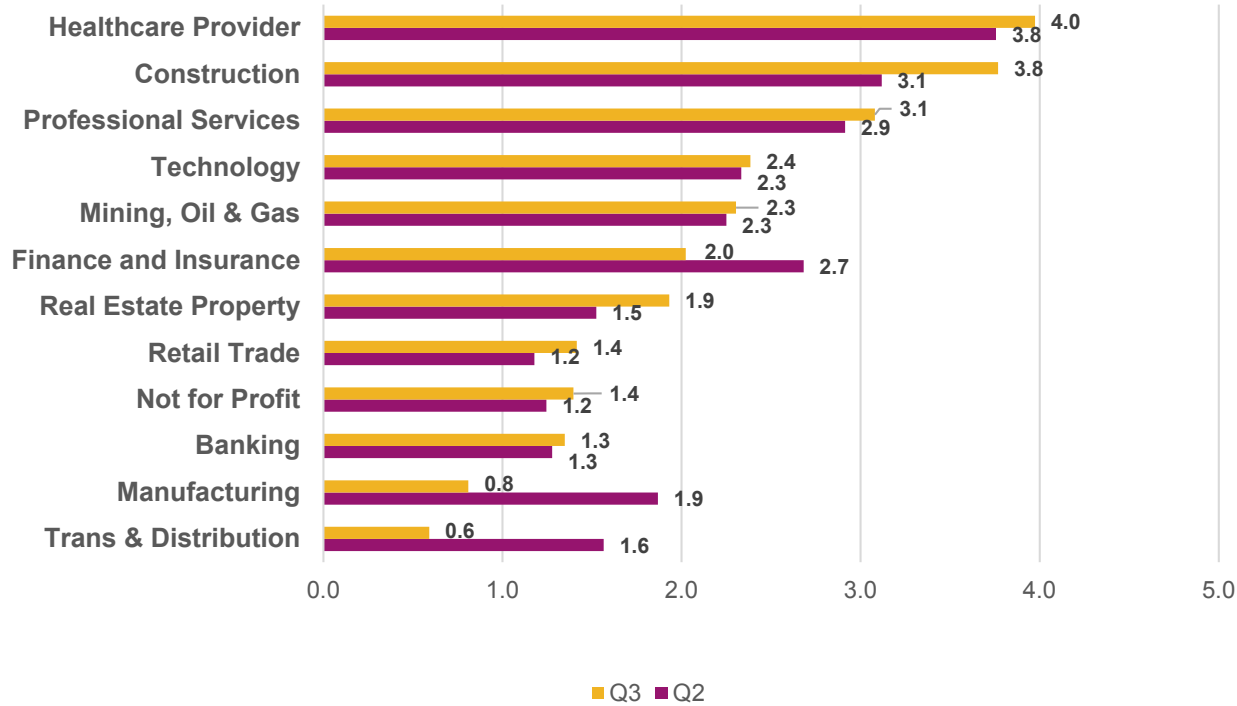
## Health Care Provider



## Health Care - Other



# Expected Employment Change by Industry



Thinking about the coming 12 months, please comment on the probable change for your organization for Number of Employees

# Industry, Region and Business-size Outlook

Regional optimism shows mixed results

**Midwest** – optimism dropped another 6% from Q2 to 54%

**West** – optimism dropped another point to 60%

**South** – also declined from 72% to 61%

**Northeast** – optimism gained another 6% to 59%

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Employment projections by business size and expansion plans by size also reflecting level of optimism

For employers with > \$1 billion in revenues, 8% now have excess employees, while 39% have too few. Of those with too few employees, 18% remain hesitant while 21% are planning to hire.

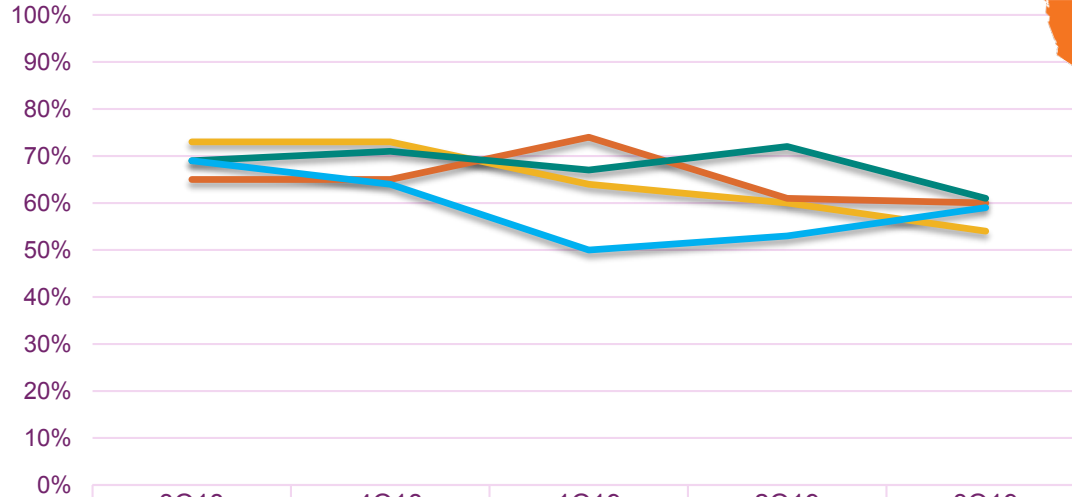
Of those in the \$100 million to \$1 billion category, 43% say they have too few employees; 28% are hiring; while 15% are hesitant.

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; 26% are planning to hire; 14% are hesitant.

Expectations for expansion by businesses with revenues < \$10 million gained 3 points to 63%. Plans for companies in the \$10 - \$100 million category eased 1 point to 66%. Companies in the \$100 million to \$1 billion range eased to 63% from 67%; those with revenues in excess of \$1 billion fell another 2 points from 66% to 64%.

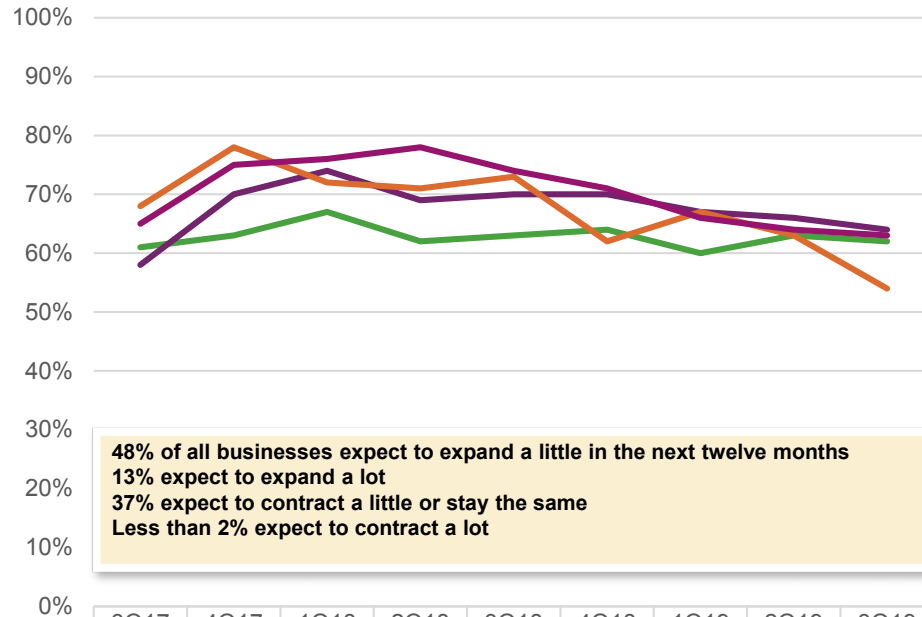
# Organization Optimism by Region



	3Q18	4Q18	1Q19	2Q19	3Q19
Midwest	73%	73%	64%	60%	54%
West	65%	65%	74%	61%	60%
South	69%	71%	67%	72%	61%
Northeast	69%	64%	50%	53%	59%

The rating that best describes your view for the economic outlook for your own organization for the next 12 months.

# Expansion Plans by Business Size

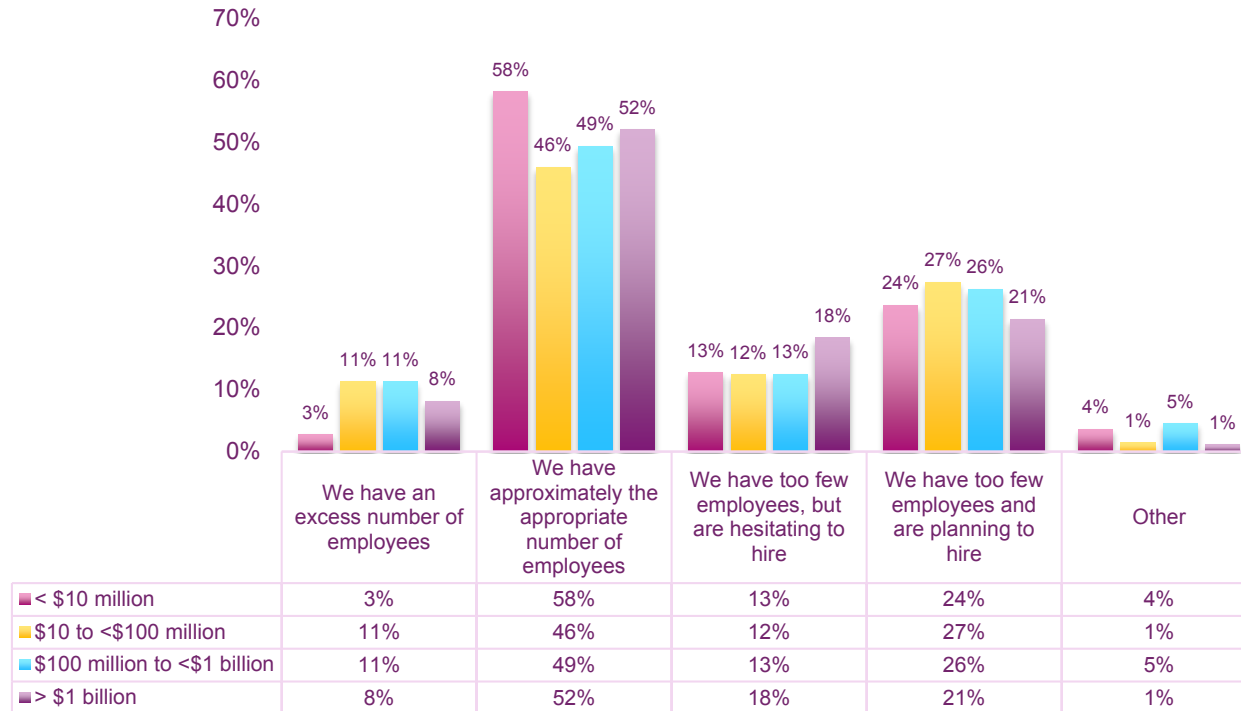


	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19
< \$10 million	61%	63%	67%	62%	63%	64%	60%	63%	62%
\$10 to <\$100 million	58%	70%	74%	69%	70%	70%	67%	66%	64%
\$100 million to <\$1 billion	68%	78%	72%	71%	73%	62%	67%	63%	54%
> \$1 billion	65%	75%	76%	78%	74%	71%	66%	64%	63%

Indicate whether you expect your business to expand or contract over the next 12 months



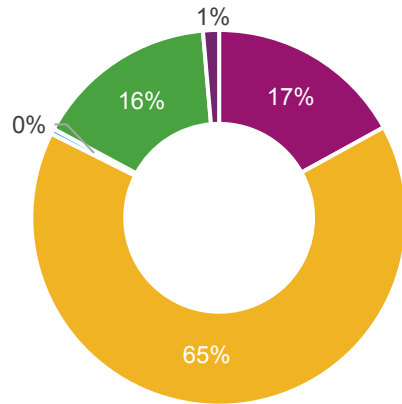
# Businesses in the > \$1 billion range are most hesitant to hire



Given current conditions, how would you characterize your overall staffing situation relative to your needs (i.e., do you have excess capacity or are employees stretched)?

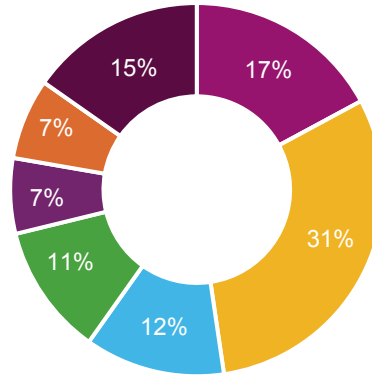
# Demographics

## Type of Organization



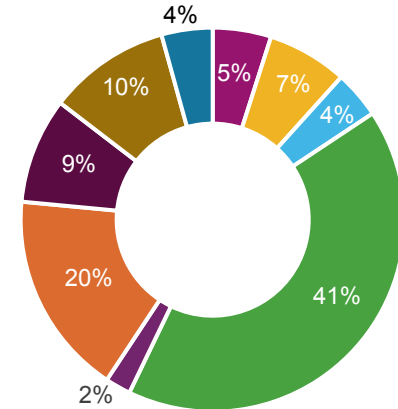
- Publicly Listed Company
- Privately Owned Entity
- Government
- Not for Profit
- Other

## Size of Organization



- \$0 to under \$10 million
- \$10 million to under \$50 million
- \$50 million to under \$100 million
- \$100 million to under \$250 million
- \$250 million to under \$500 million
- \$500 million to under \$1 billion
- \$1 billion or more

## Position



- President
- Vice President/SVP
- CEO/COO
- CFO
- Chief Officers (CAO/CAE/CIO/CTO/CRO/KMO)
- Controller/Comptroller
- Director/Managing Director
- Accounting, Audit, Tax or Technology Manager
- Other



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# AICPA Business and Industry Economic Outlook Survey 3Q 2019

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