

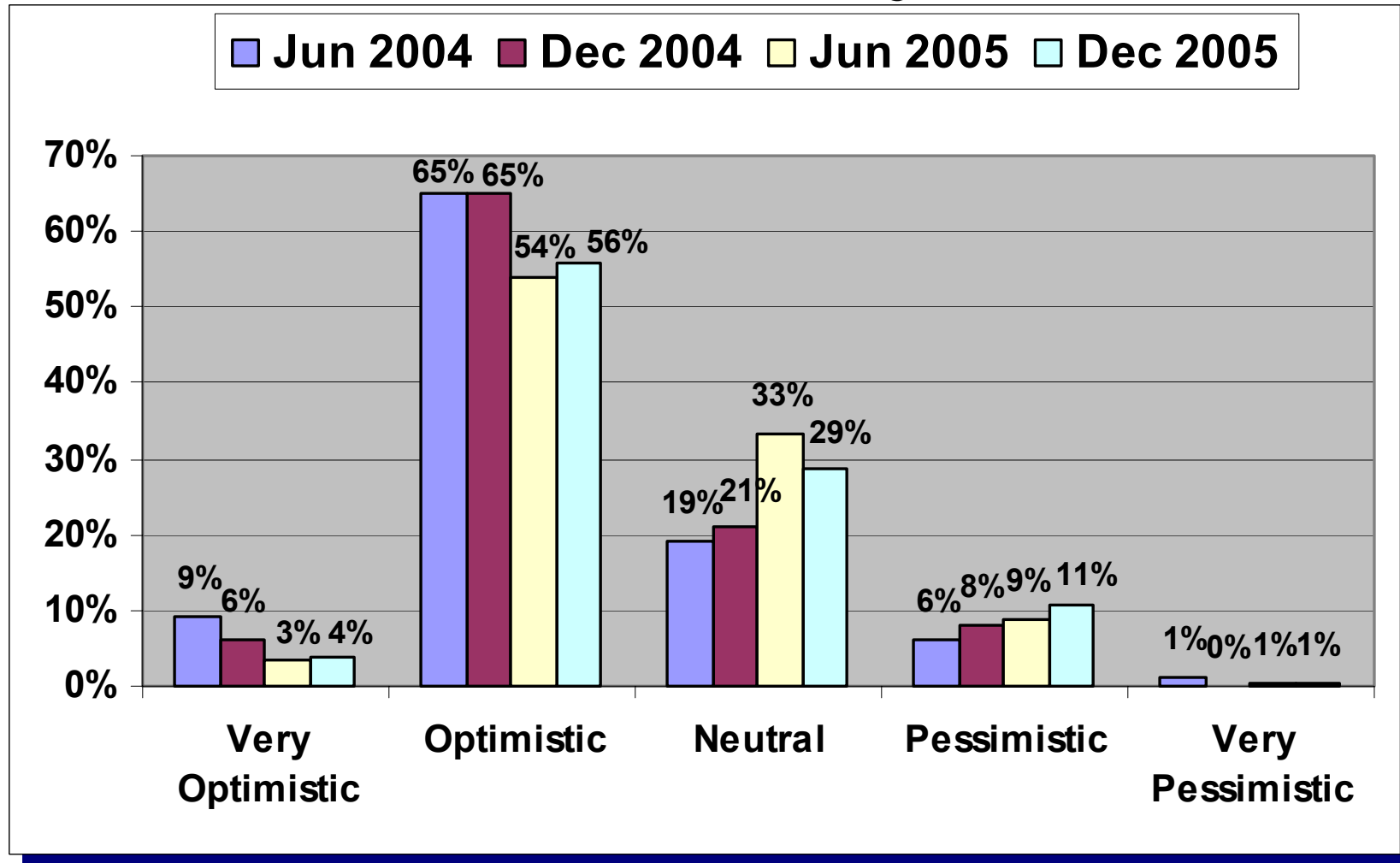
AICPA
Business and Industry
Economic Outlook Survey
December 2005

Summary of Survey Results

Outlook for the Economy

- December results show a pattern consistent with that of June 2005, with CPA decision makers being less optimistic about the economy as a whole than about the prospects for their own organization.
- 60% continue to be *optimistic*, or *very optimistic* about the economy as a whole; up slightly from 57% in June 2005, but down from 71% in Dec 2004.

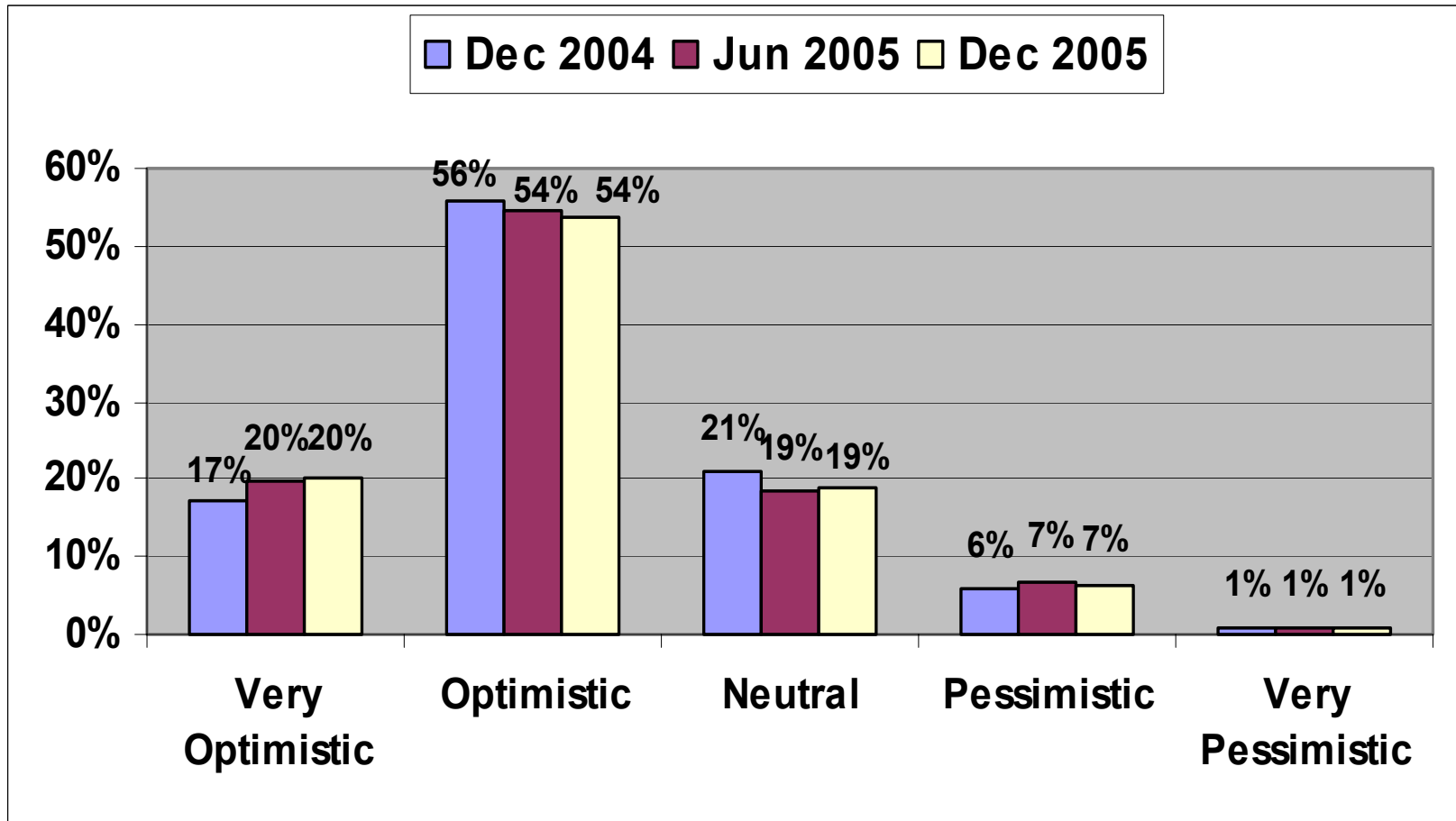
Outlook for Economy



Individual Company Prospects

- CPA optimism about the prospects for their own companies continues to be strong.
- Consistent with June 2005, 74% continue to be *optimistic* or *very optimistic* about the prospects of their own organization over the next six months.

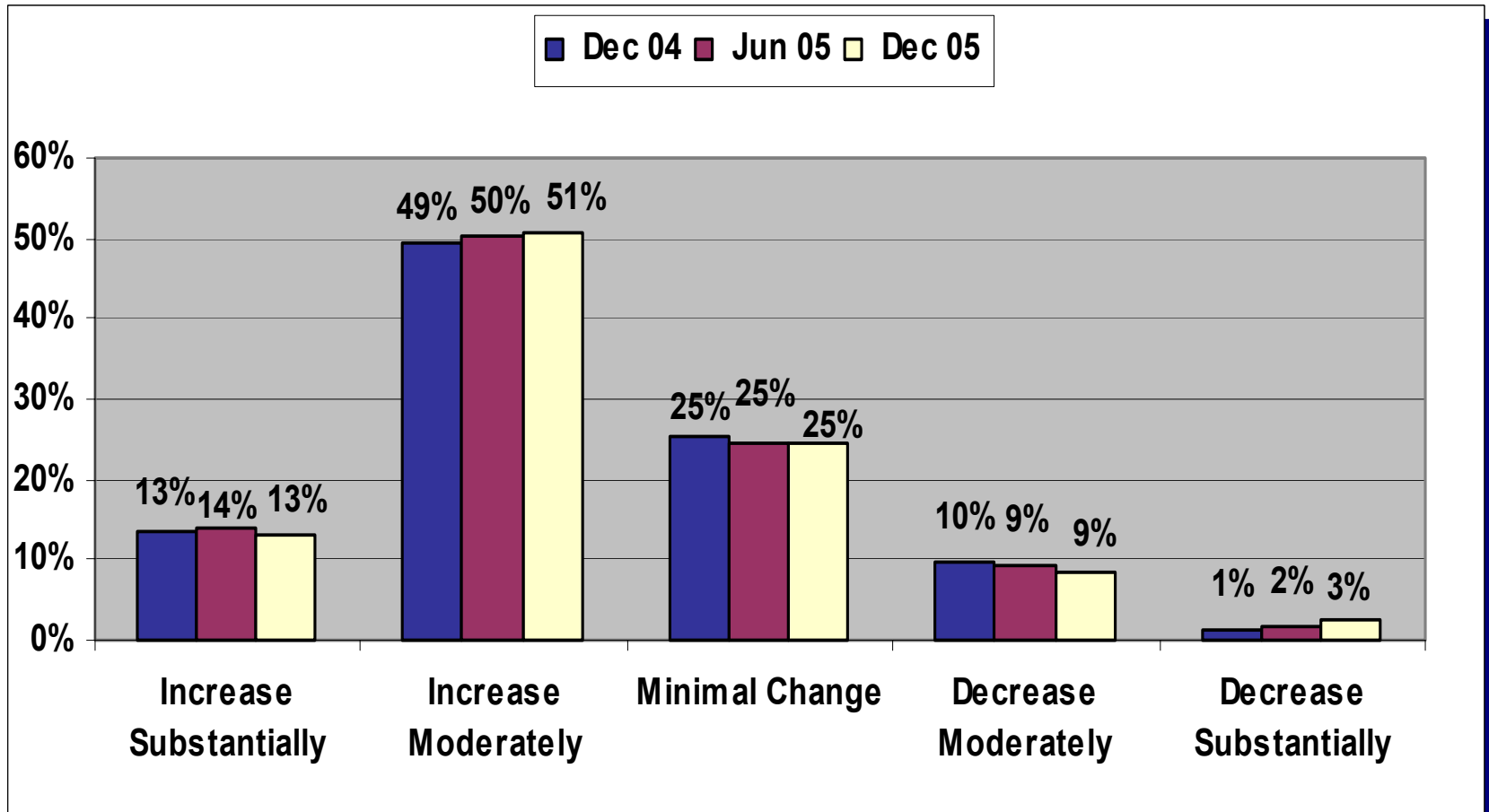
Outlook for Own Organization



Growth

- Growth projections as of June 2005 remain relatively unchanged compared to December 2004 and June 2004 surveys.
- 64% expect *moderate to substantial* growth over the next six months; 11% expect declines.

Total Growth Expected

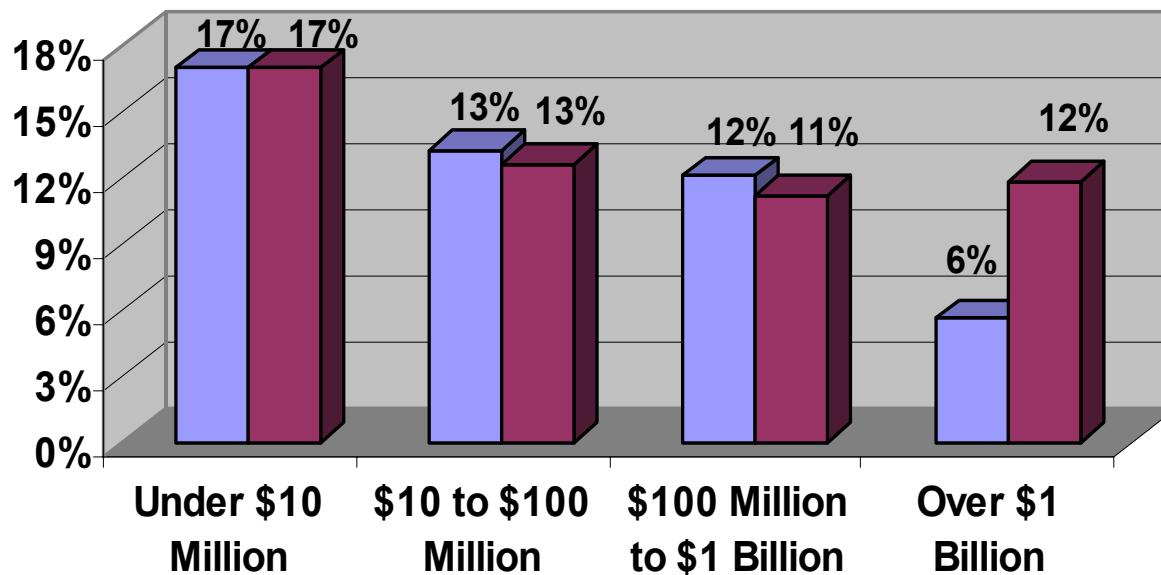


Growth by Size of Company

- Expectations for growth continue to be strong across all size categories.
- Companies in the under \$10 million category indicate the highest *frequency* of expectation for *substantial* growth at 17%, unchanged from the previous survey.
- In the over \$1 billion category, 12% of companies are expecting *substantial* growth at Dec 05, compared to only 6% at Jun 05

Growth by Size of Company

Companies Expecting Substantial Growth

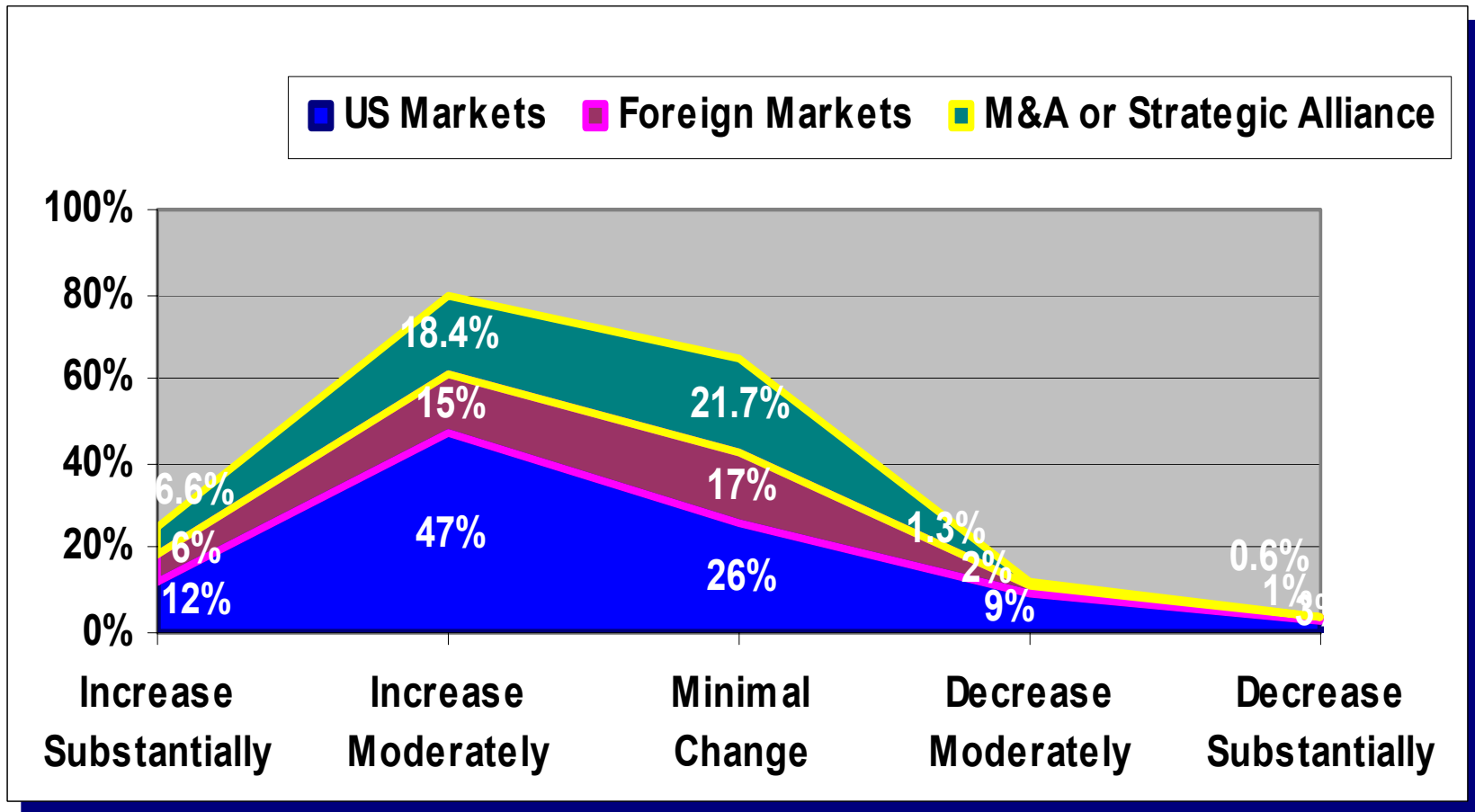


■ Increase Substantially Jun 05 ■ Increase Substantially Dec 05

Sources of Growth

- Expectations remained consistent for growth from each of the following sources:
 - US Markets
 - Foreign Markets
 - M&A or Other Strategic Alliance

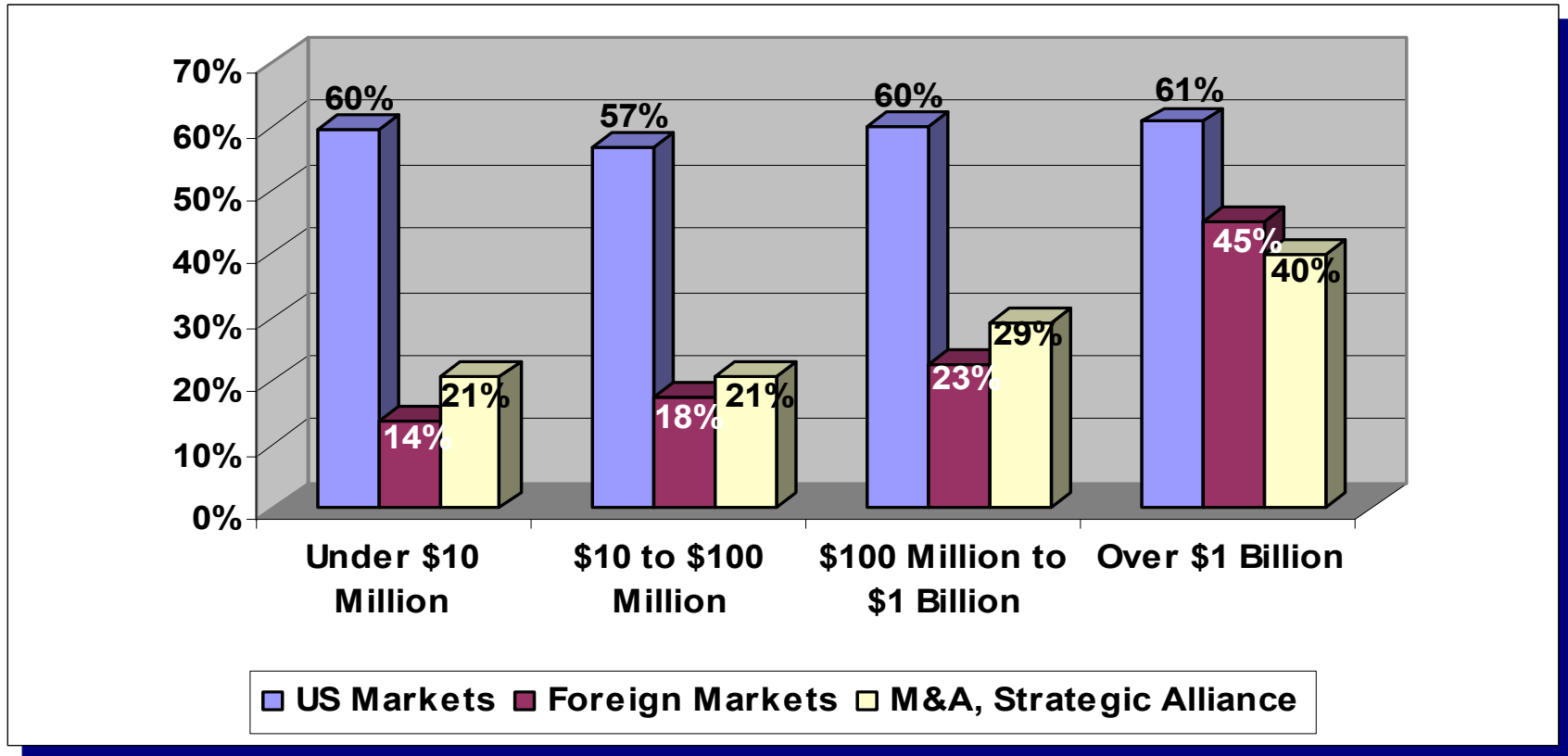
Anticipated Sources of Growth



Sources of Growth by Size of Company

- Roughly 60% of companies in all size groups expect either substantial or moderate increases in growth from US markets.
- Growth increases from foreign market sources and from M&A or other strategic alliances is concentrated in the two largest company size categories.

Sources of Growth by Size of Company



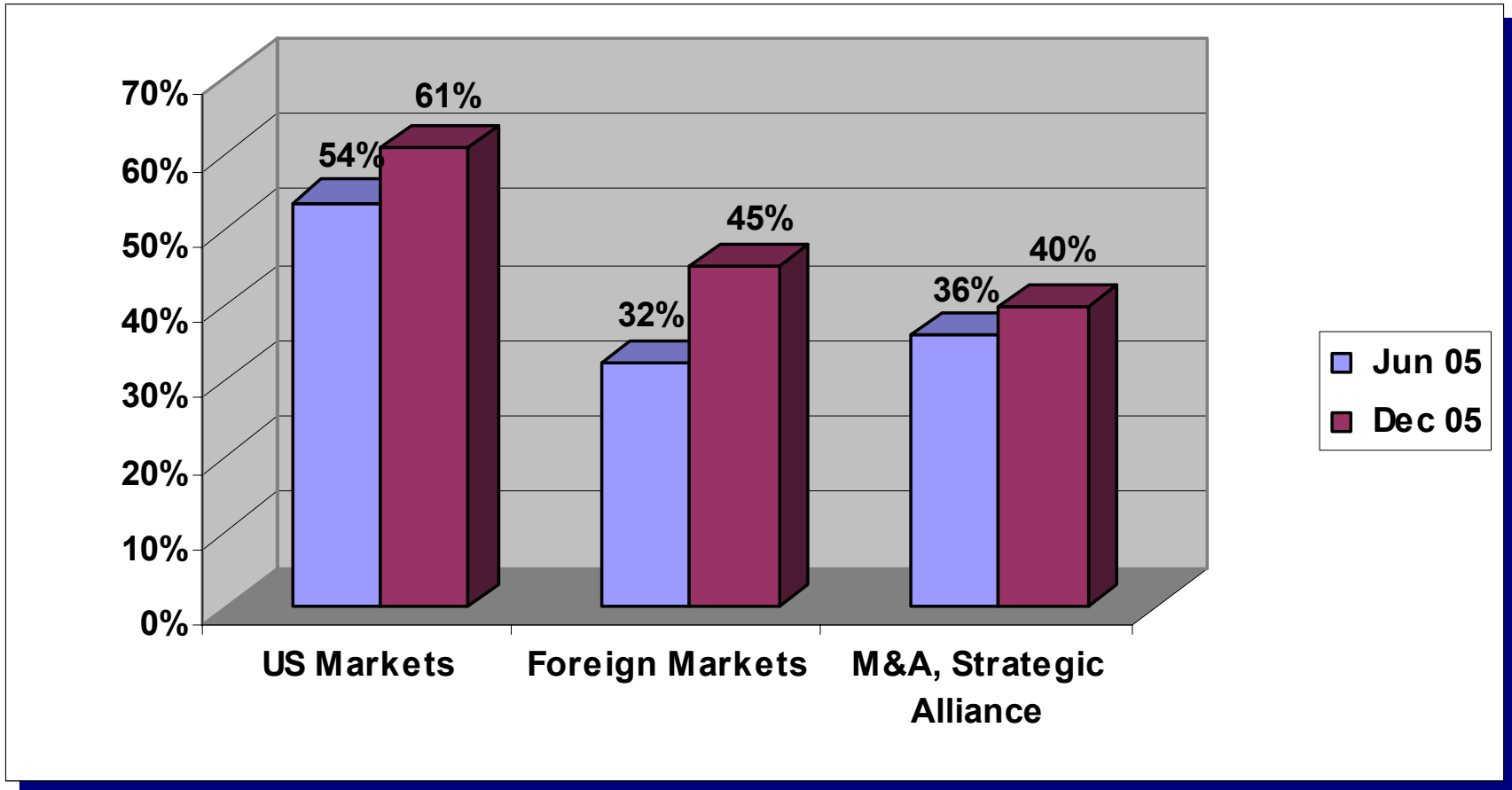
Note 1: Percentages indicate the frequency of companies indicating expectations for growth from referenced sources.

Note 2: Significant percentages of companies responded that growth from non-US markets and from M&A activities was not applicable (inversely related to company size).

Expected Growth Compared to Jun 05

- In comparison with Jun 05, companies in the over \$1B category showed the greatest shift.
- The number of companies > \$1B expecting growth from the following sources increased from Jun 05 to Dec 05:
 - **US markets** - 54% to 61%
 - **Foreign markets** - 32% to 45%
 - **M&A / Strategic Alliance** - 36% to 40%

Expected Growth – Companies > \$1B

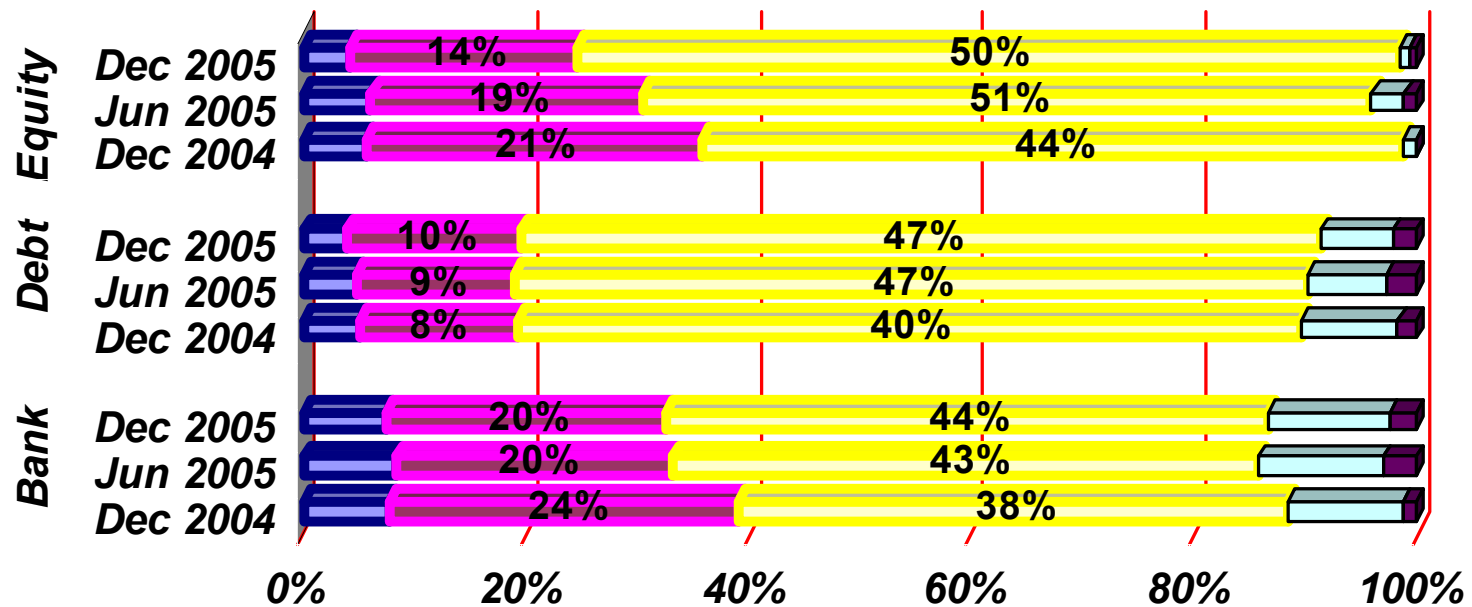


Note: Percentages represent frequency of companies in the over\$1B category indicating *substantial* or *moderate* increases from the indicated sources.

Financing

- Financing plans also remain relatively constant with more increases than decreases expected in:
 - Bank Borrowings
 - Other Debt
 - Equity Financing

Financing Plans

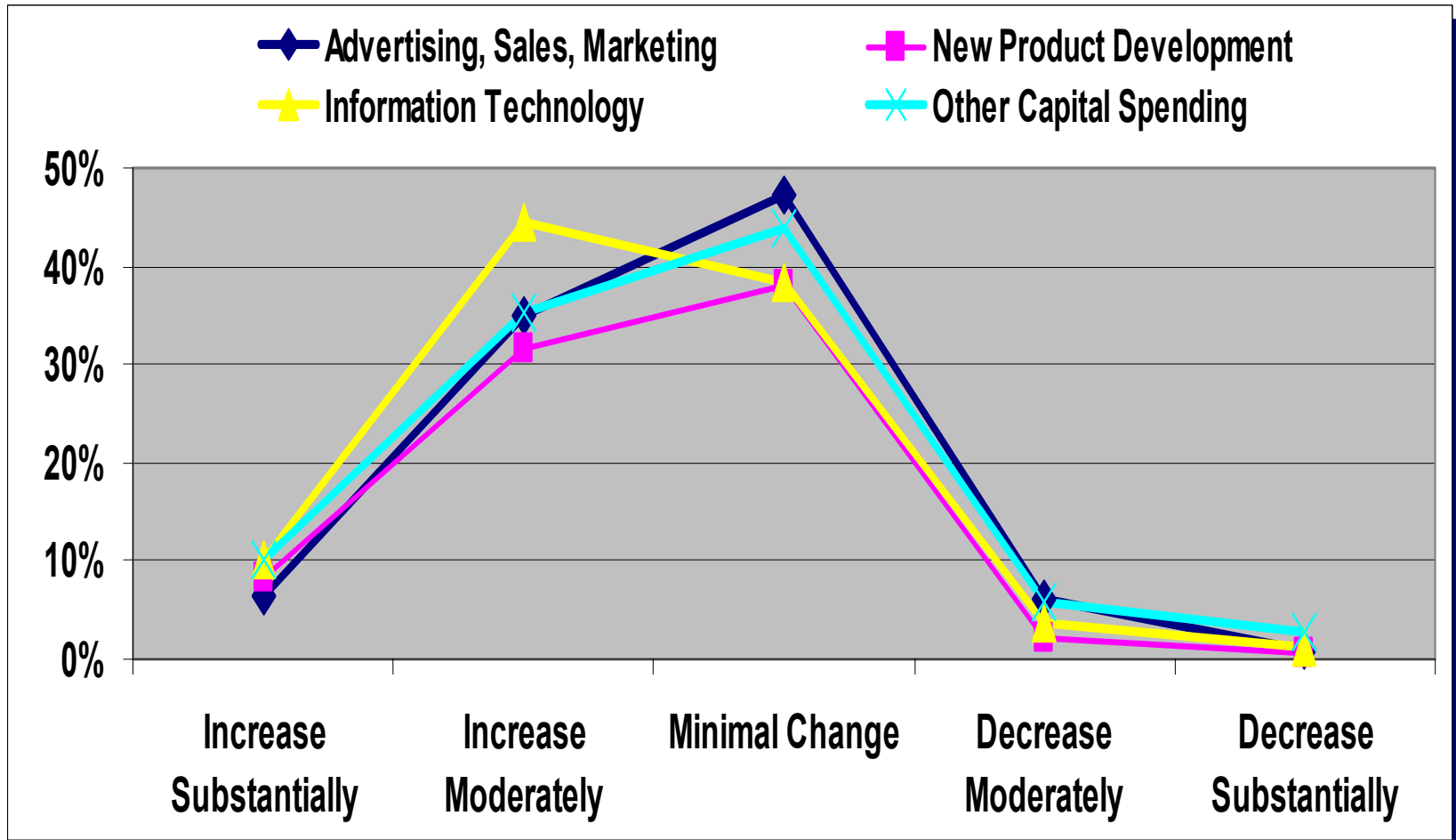


■ *Increase Substantially*
 ■ *Increase Moderately*
 ■ *Minimal Change*
■ *Decrease Moderately*
 ■ *Decrease Substantially*

Spending

- Companies with plans for increased spending continue to outnumber those with plans for decreased spending in all four categories surveyed:
 - Advertising, Sales and Marketing
 - New Product Development
 - Information Technology
 - Other Capital Spending

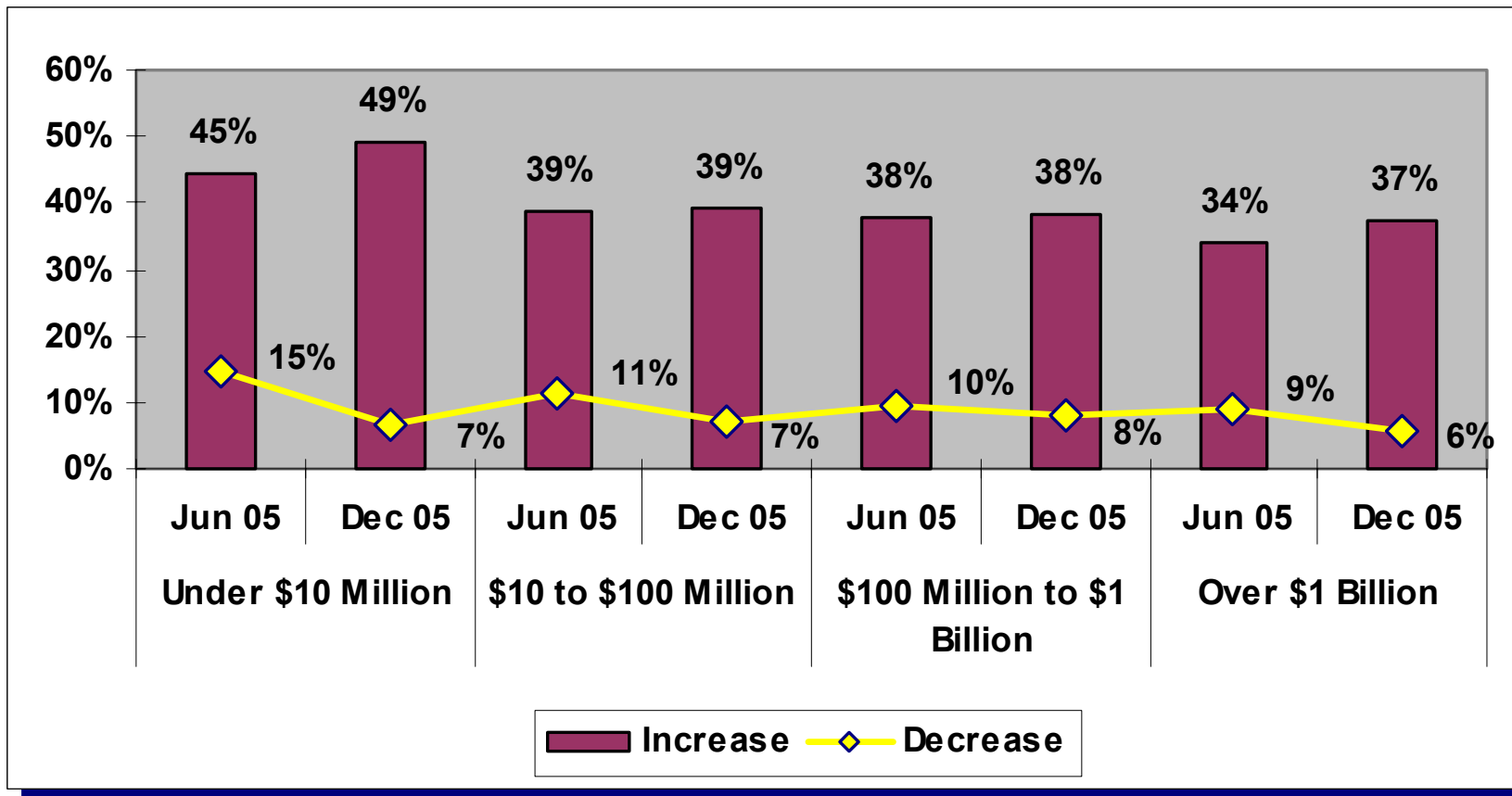
Spending



Advertising, Sales & Marketing Budgets

- The greatest shift in plans for advertising, sales and marketing spending occurred in the under \$10 million group of companies
 - In Dec 05 the 49% of small companies indicated plans for increased spending, compared to 45% in June 05
 - The number of small companies projecting spending decreases during the same period dropped from 15% to 7%

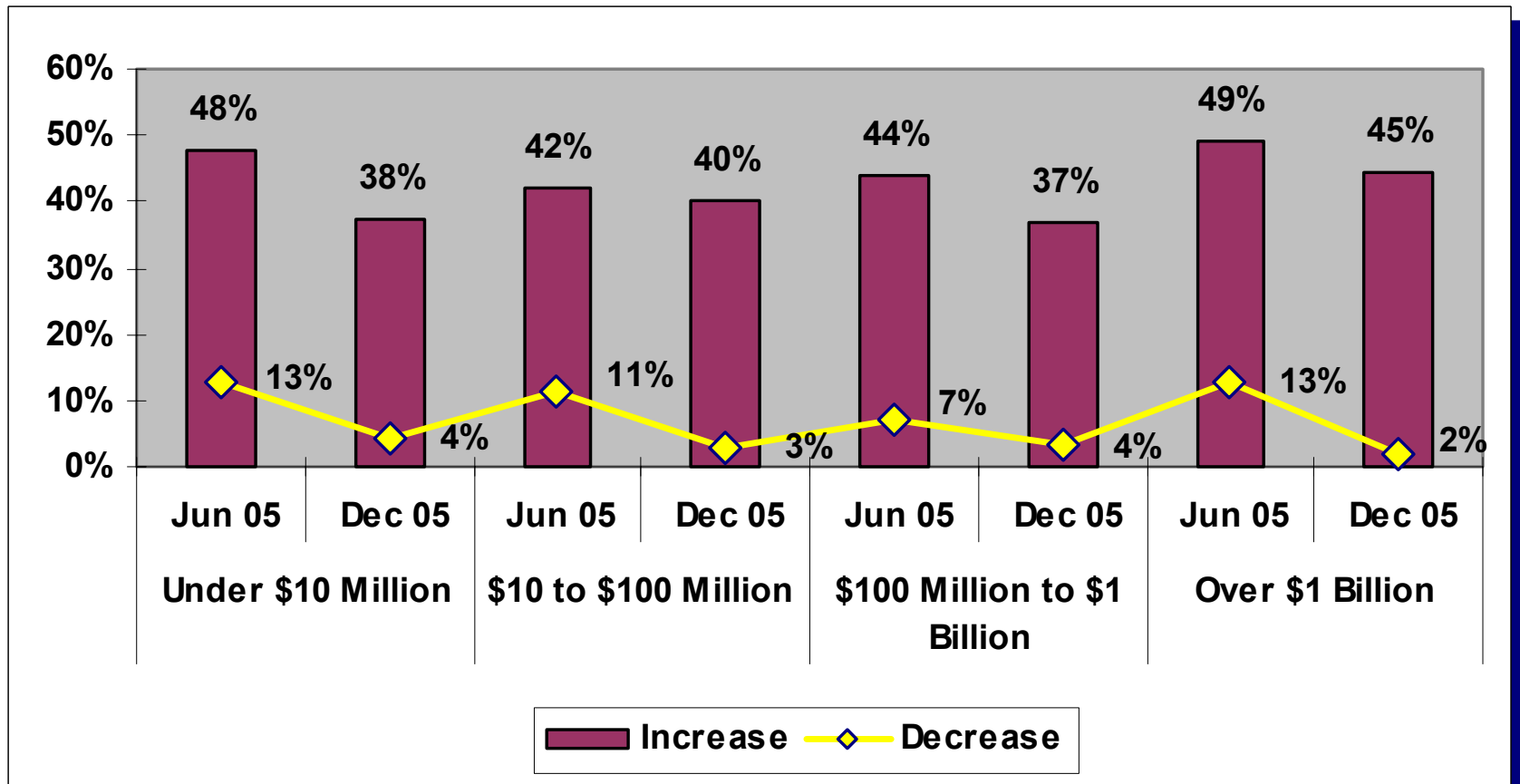
Advertising, Sales and Marketing Spending by Size of Company



New Product Spending by Size of Company

- Fewer companies in all size categories are projecting increases in spending for new products at Dec 05 than at June 05
 - Small companies showed the largest decline with a drop from 48% in Jun 05 to 38% in Dec 05
- Conversely, fewer companies in all size categories are projecting decreases in new product spending

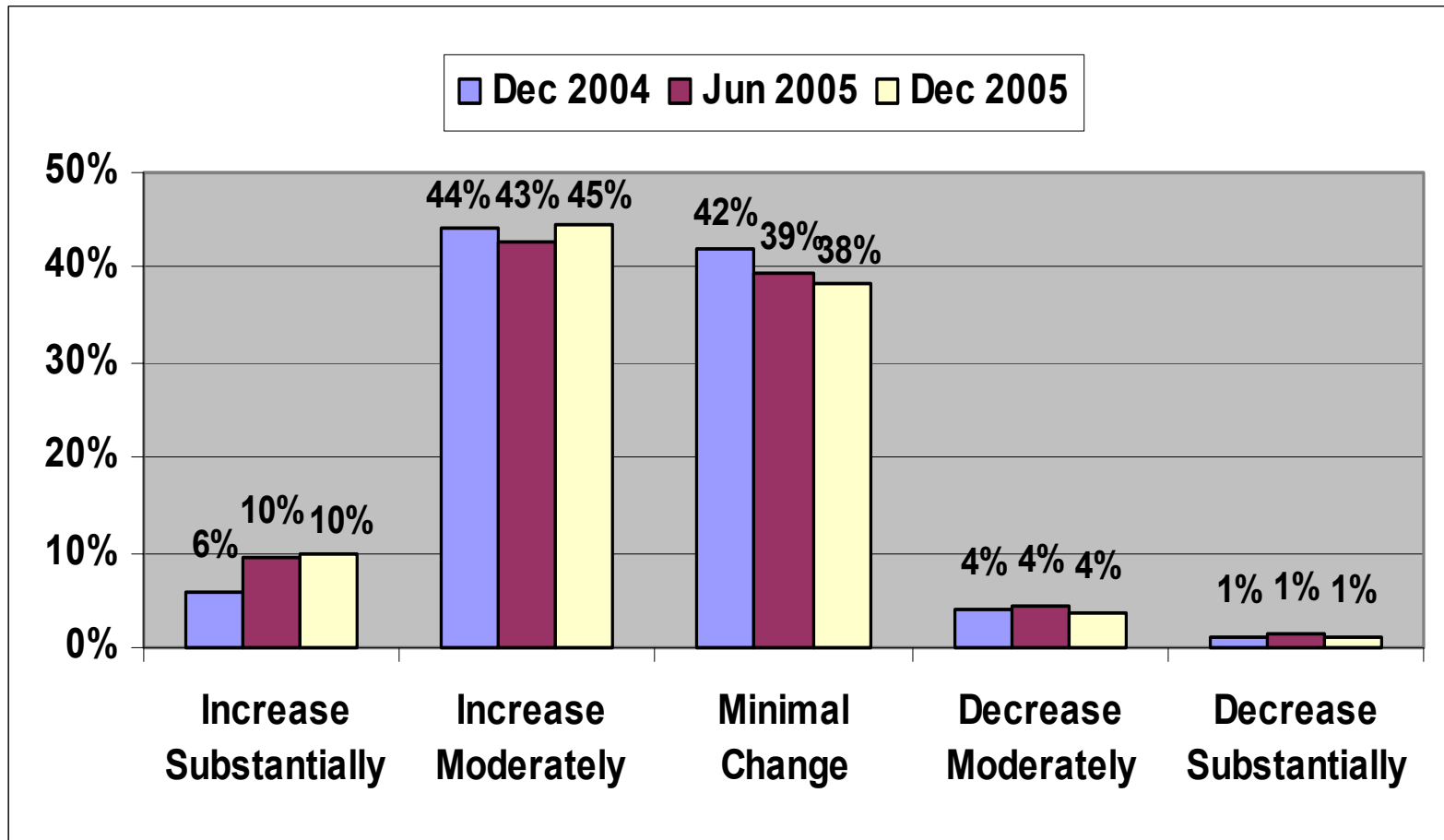
New Product Spending by Size of Company



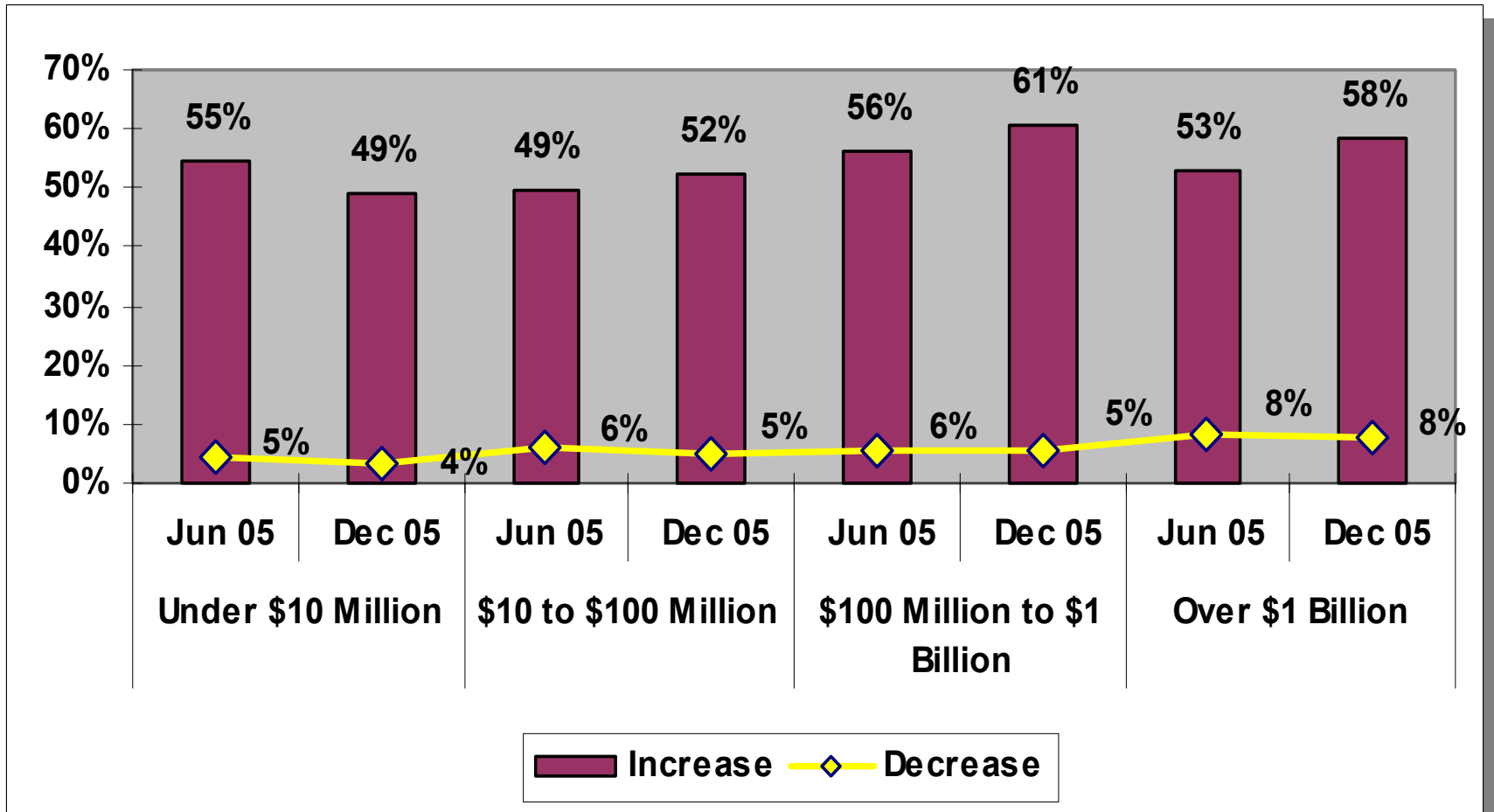
IT Spending

- Spending for Information Technology is expected to continue to be strong over the next six months.
- 55% expect increased IT spending; only 5% expect decreased IT spending.
- 10% expect their IT spending to increase substantially.
- While all size groups show strength, greater numbers of large companies are planning spending increases:
 - 61% of companies in the \$100 million to \$1 billion size group
 - 58% of companies in the over \$1 billion group

IT Spending



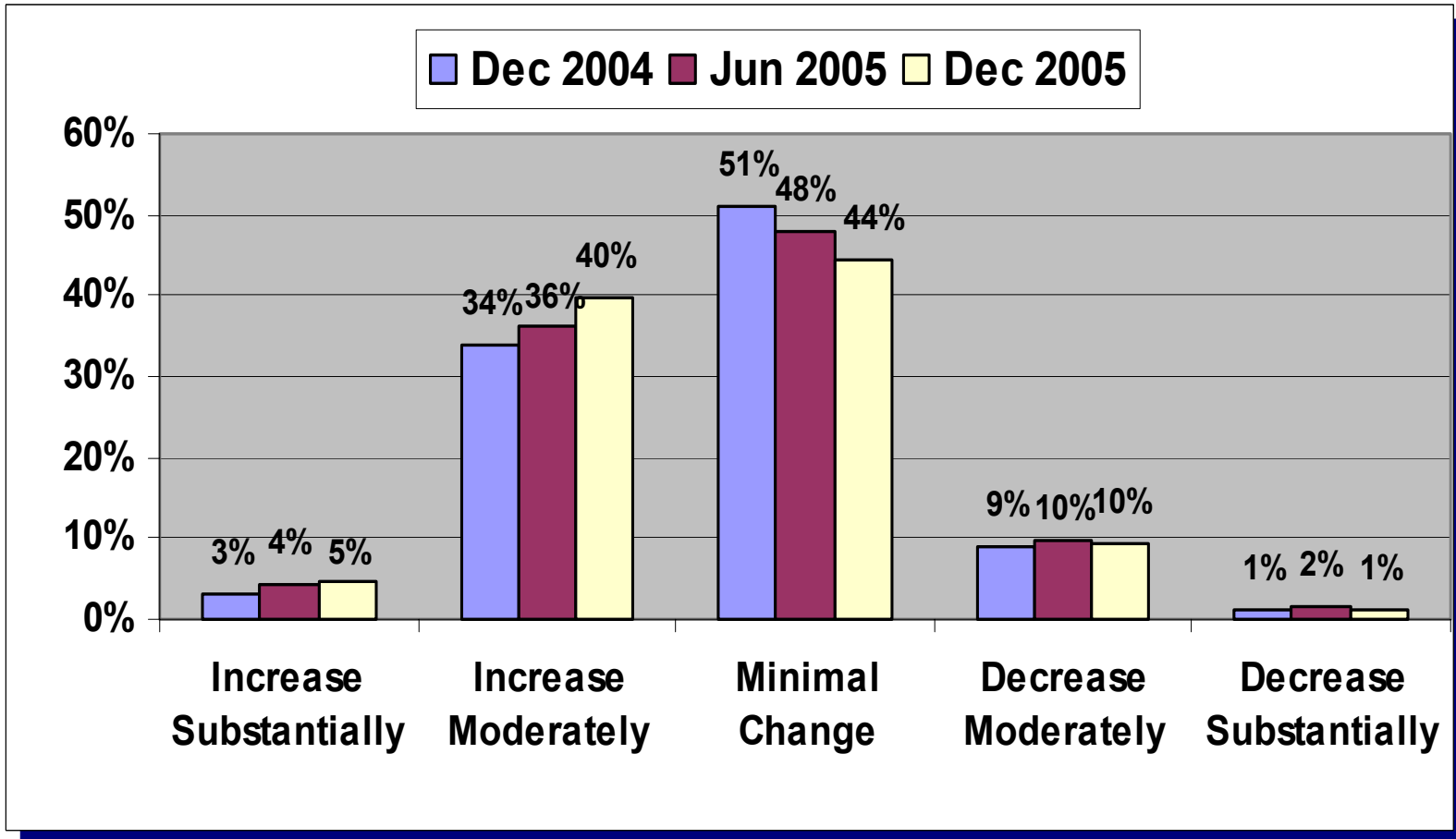
IT Spending by Size of Company



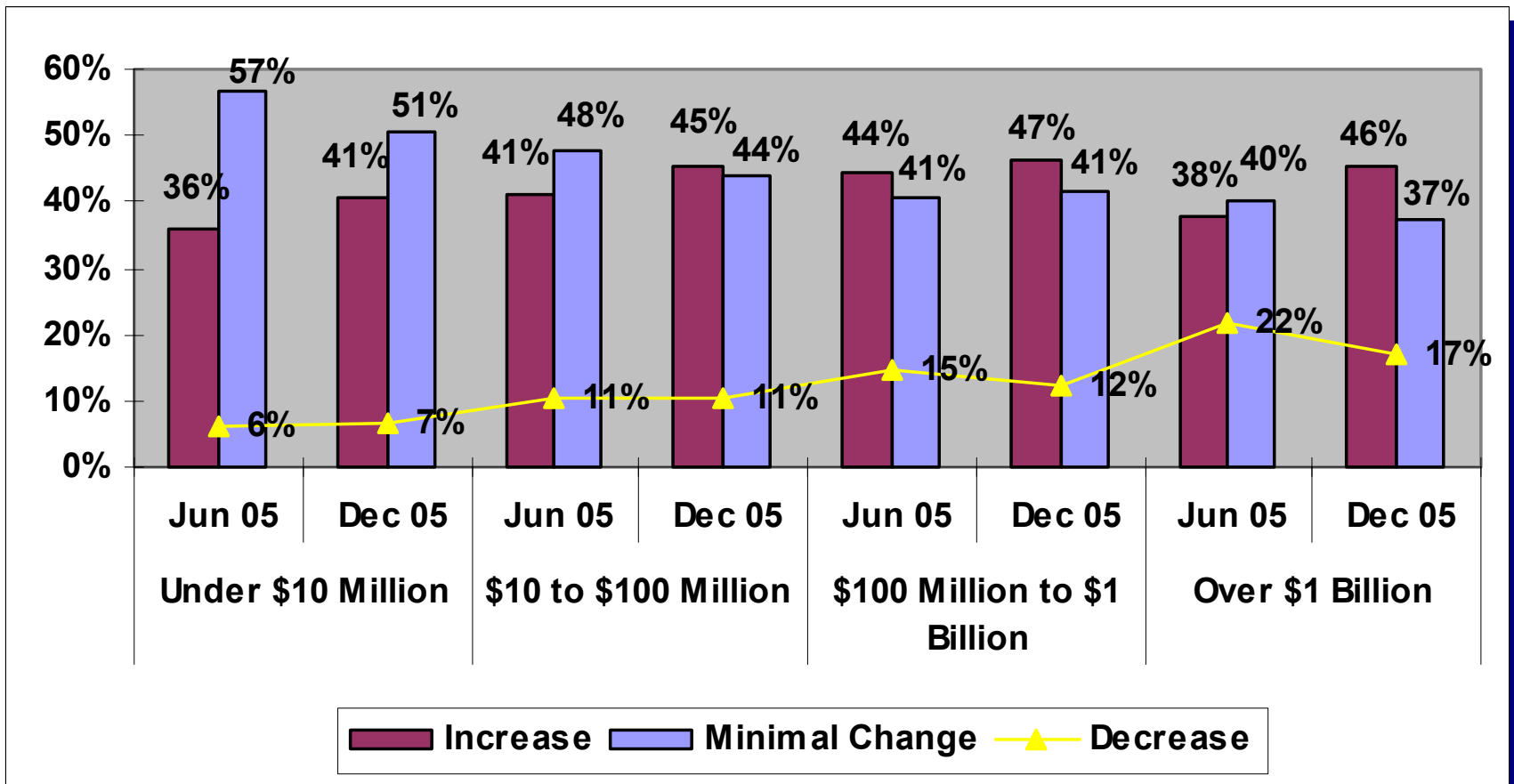
Workforce Size

- Workforce increases are also expected to continue.
- 45% of all companies anticipate increases in total workforce size in the next six months, compared to 40% who were anticipating increases as of June 2005.
- Only 11% of all companies surveyed anticipate workforce reductions in the next six months.

Total Workforce Size



Workforce by Company Size



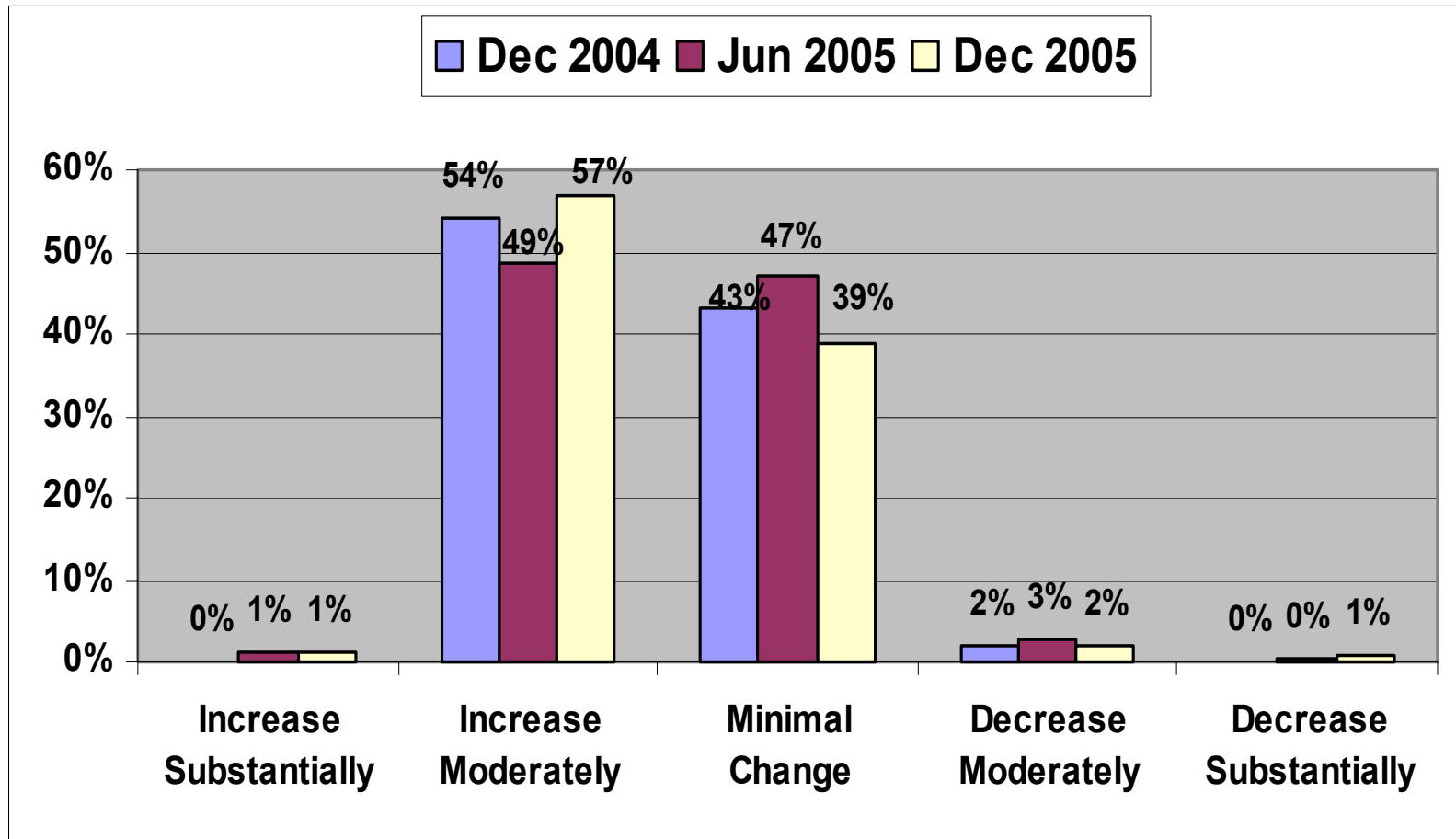
Employee and Benefit Costs

- The number of companies expecting increases in wage and benefits increases in slightly higher at year end 2005 than at mid-year.
- The number of companies expecting moderate increases in per employee wage costs has increased from 49% to 57%; conversely, the number expecting only a minimal change decreased from 47% to 39%.

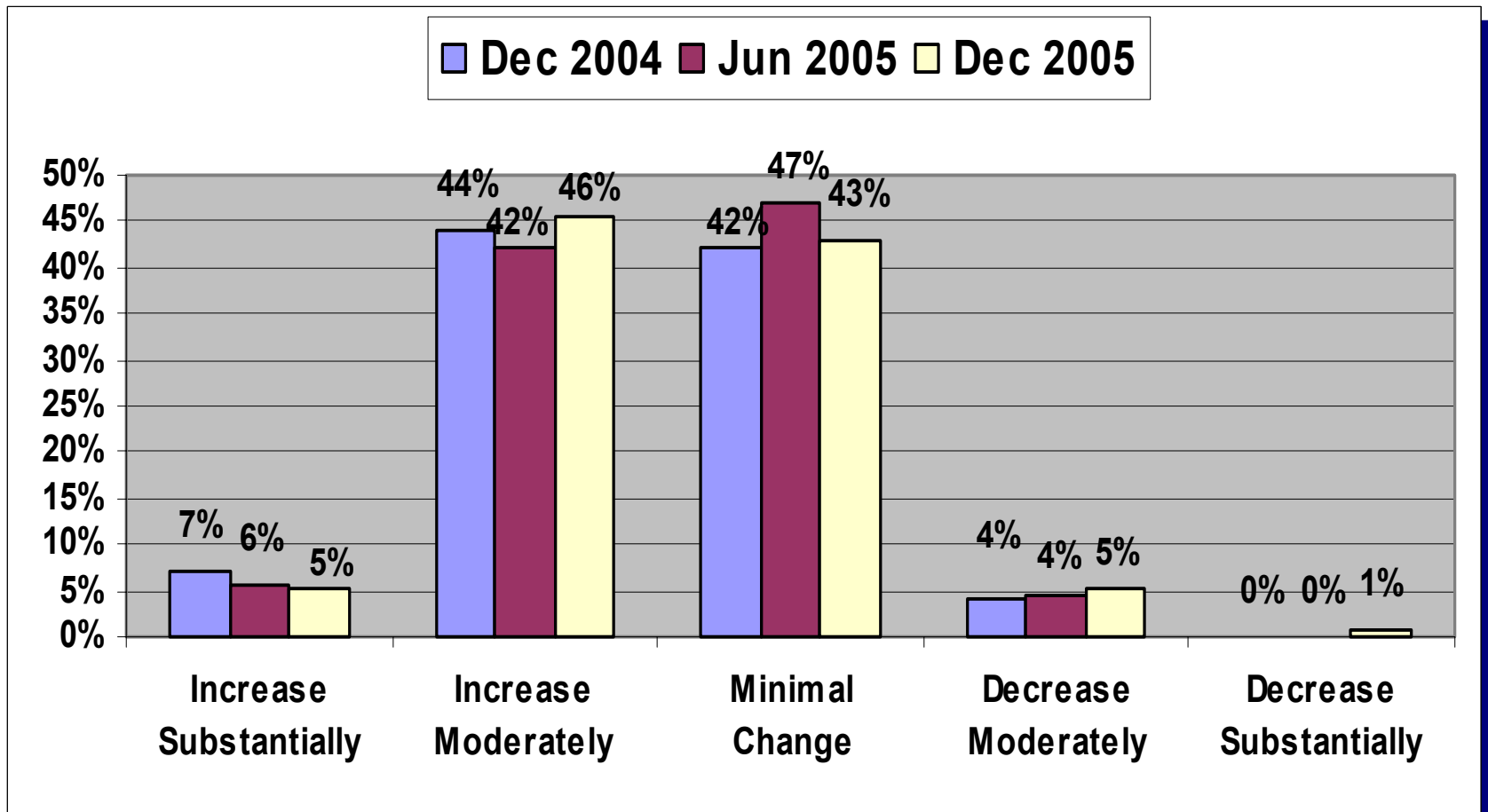
Employee and Benefit Costs

- Similarly, 46% of companies are expecting *moderate increases* in benefits costs as of December 2005, compared to 42%% at mid-year and 44% in December 2004.
- 5% of companies are expecting substantial increases in benefit costs;
- Moderate decreases in benefit costs are expected by 5%;
- Benefit expense decreases are concentrated in the over \$1B size group with 13% of companies in this group anticipating reductions.

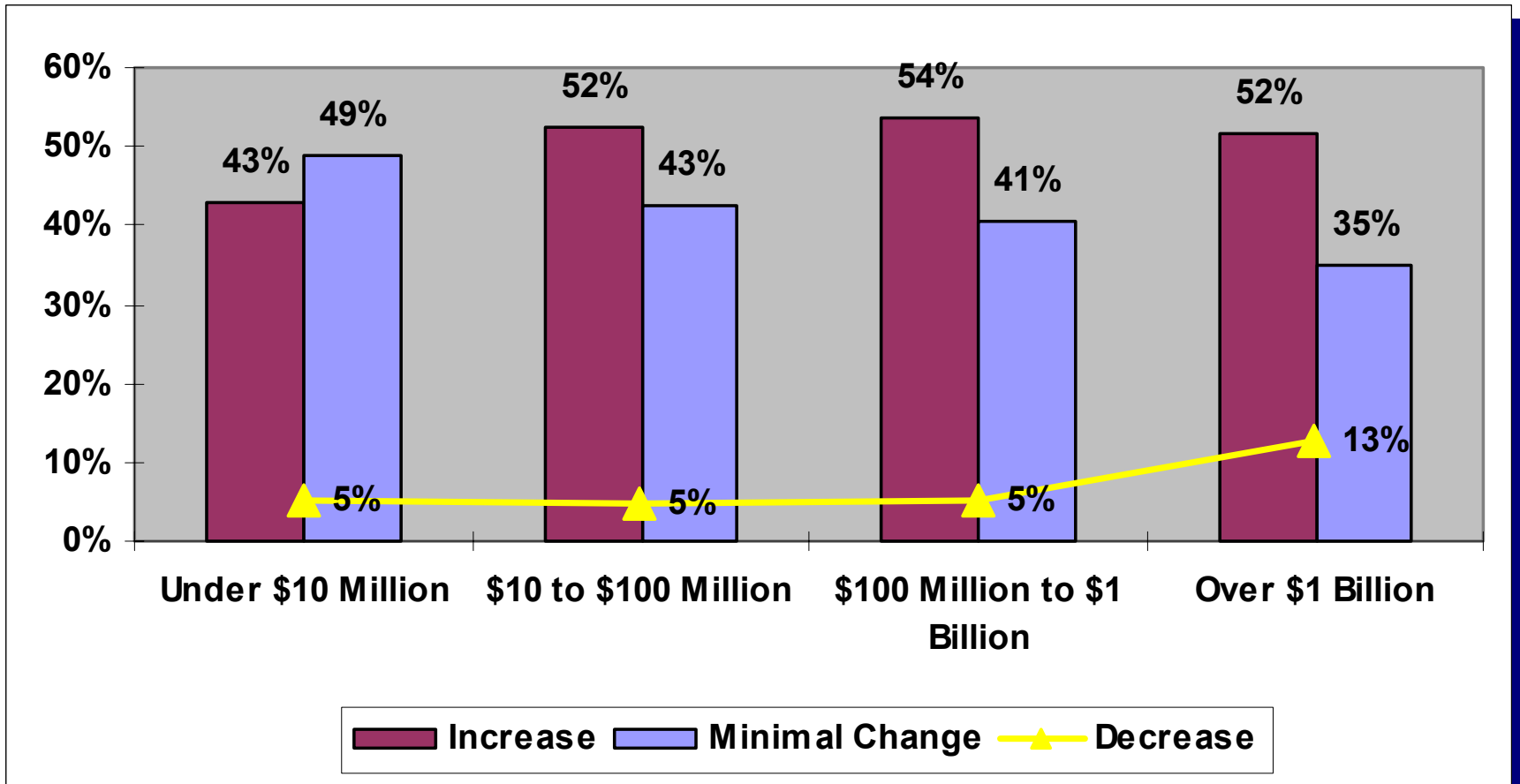
Wages and Salaries (per employee)



Benefits Expense (Incl. Healthcare)



Benefits Expense by Size of Company

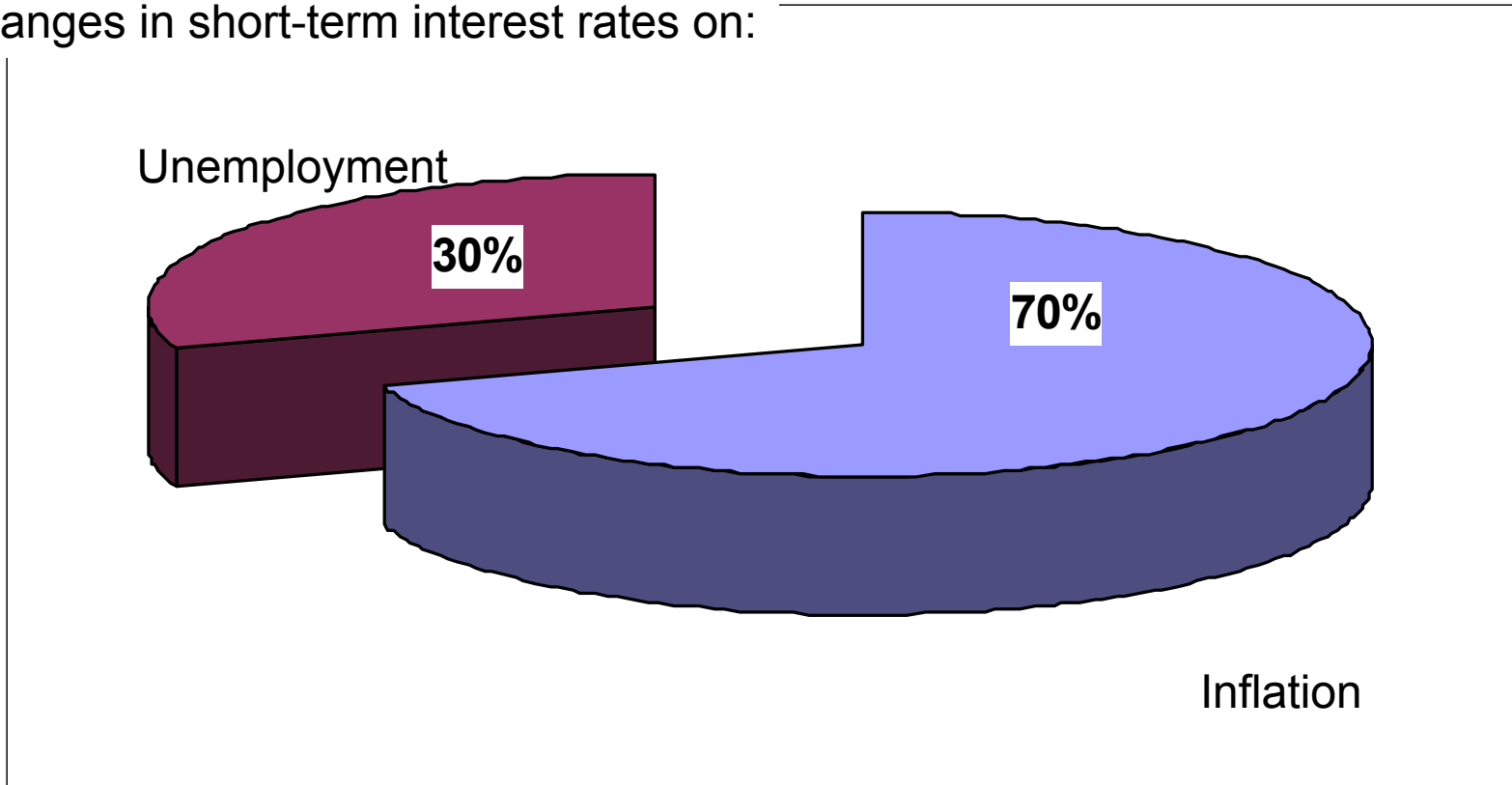


Policy Issues

- *On Monetary Policy*
 - CPAs continue to be more concerned about the impact of changes in short-term interest rates on inflation than unemployment.

Monetary Policy

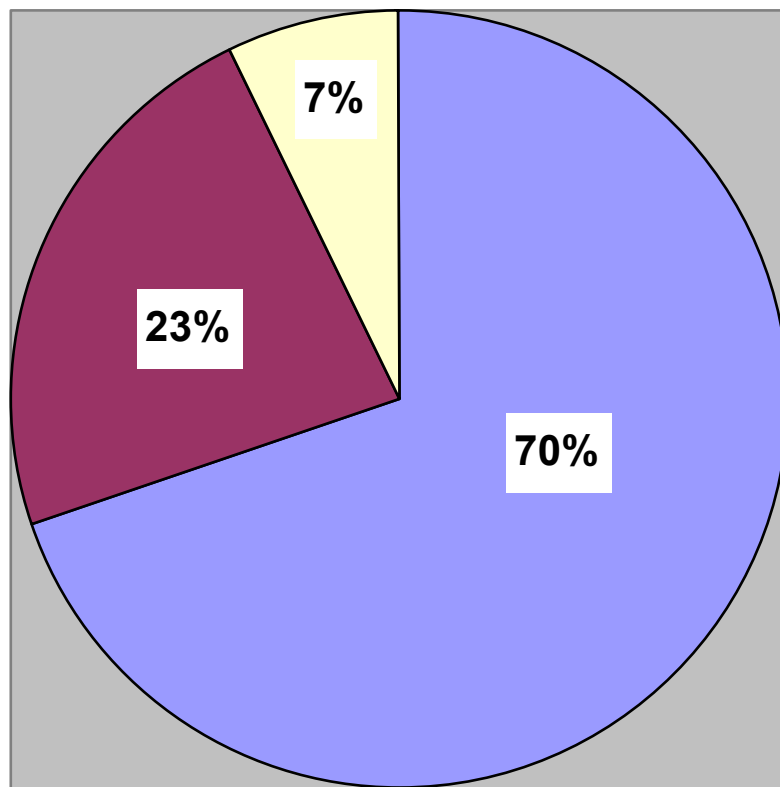
More concerned about the impact of changes in short-term interest rates on:



US Trade Policy with China

- When asked about proposals for US trade policy with China:
 - 70% indicated support for the current US policy of supporting gradual revaluation of the Chinese yuan vis-à-vis the US dollar;
 - 23% support treating currency manipulation as a trade violation and imposing sanctions;
 - 7% support imposing sanctions without declaring currency manipulation as a trade violation.

US Trade Policy with China



- Continue Current Policy of Gradual Revaluation
- Treat Currency Manipulation as Violation and Impose Sanctions
- Authorize Sanctions Without Treating as Violation

Policy Issues – Tax Reform

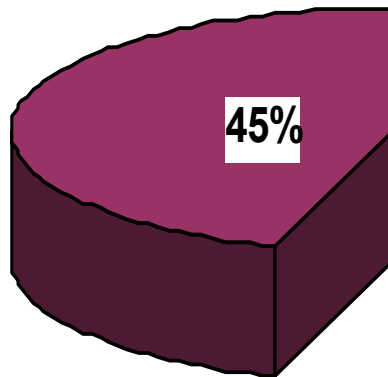
When asked about the President's Advisory Panel on Tax Reform's recommended plans:

- 55% indicated a preference for the Simplified Tax Plan (primarily impacting individual taxes);
- 45% indicated a preference for the Growth and Investment Tax Plan (including more significant changes in business taxes).

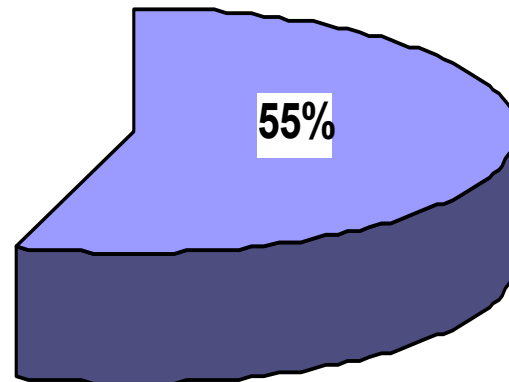
Tax Reform Proposals

More inclined to favor:

Growth and
Investment Tax
Plan



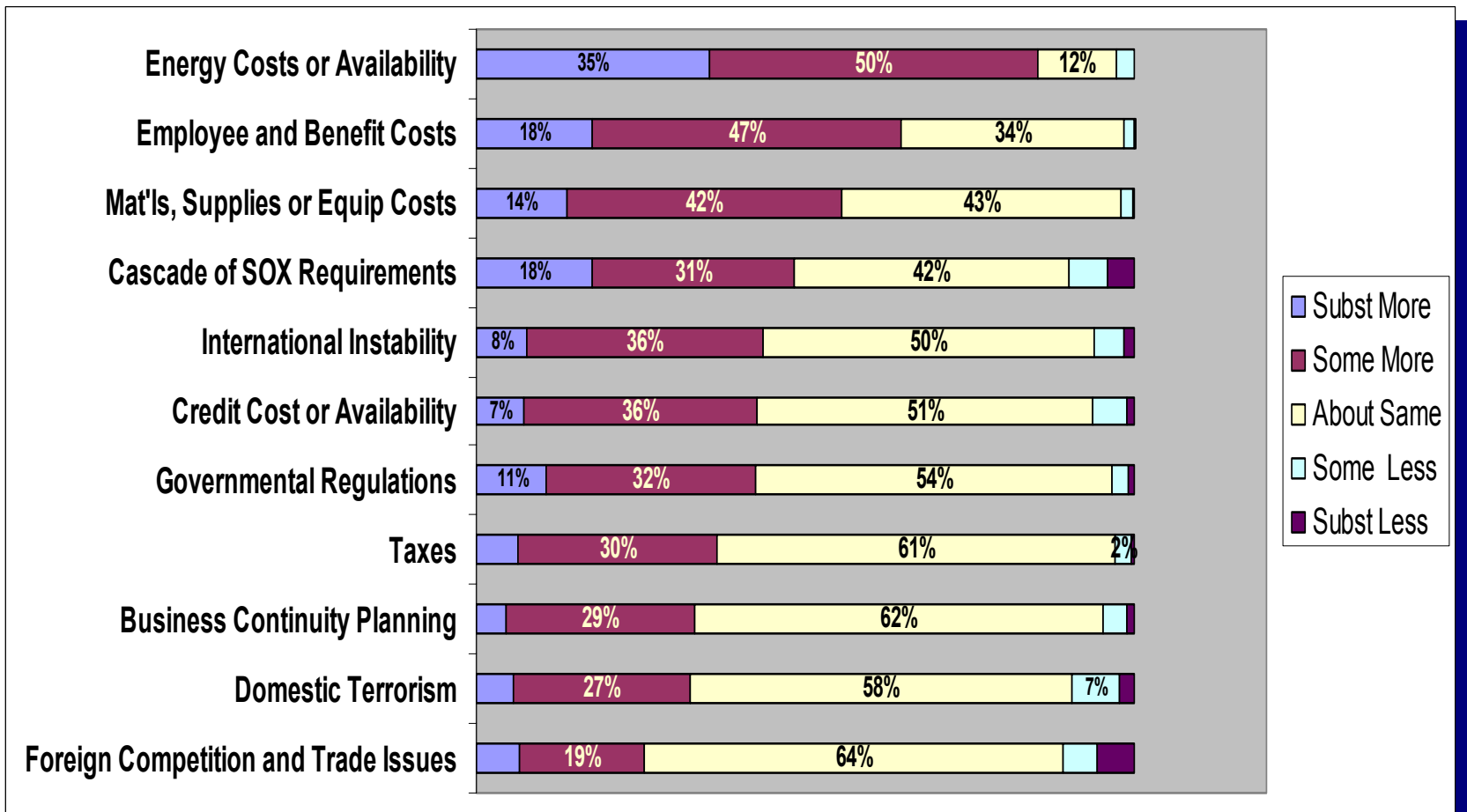
Simplified Tax
Plan



Issues and Concerns

- Areas of concern which more than 50% of respondents indicate being more worried about as of December 2005 than at mid-year:
 - Energy costs
 - Employee costs
 - Materials, supplies or equipment costs
- 85% of respondents indicated being more concerned about energy costs at year end than six months earlier.

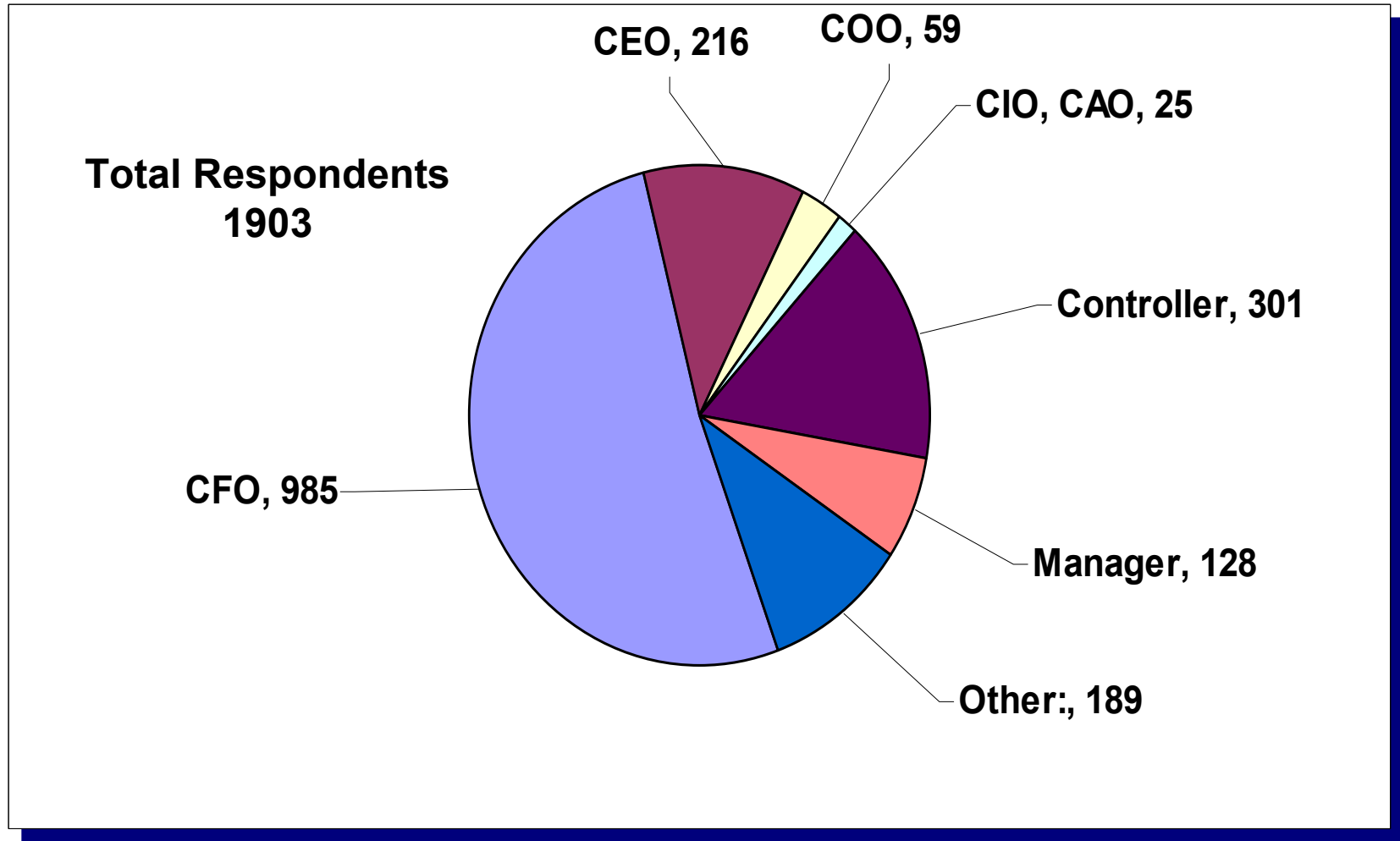
More than Less Concerned



The Survey

- Fourth semi-annual survey targeted at CPA decision makers in executive functions in:
 - Public and privately held companies
 - Government, not-for-profit, and
 - Other organizations
- 1903 respondents, including 985 CFOs and 216 CEOs

Respondents by Title



Respondents by Entity Type

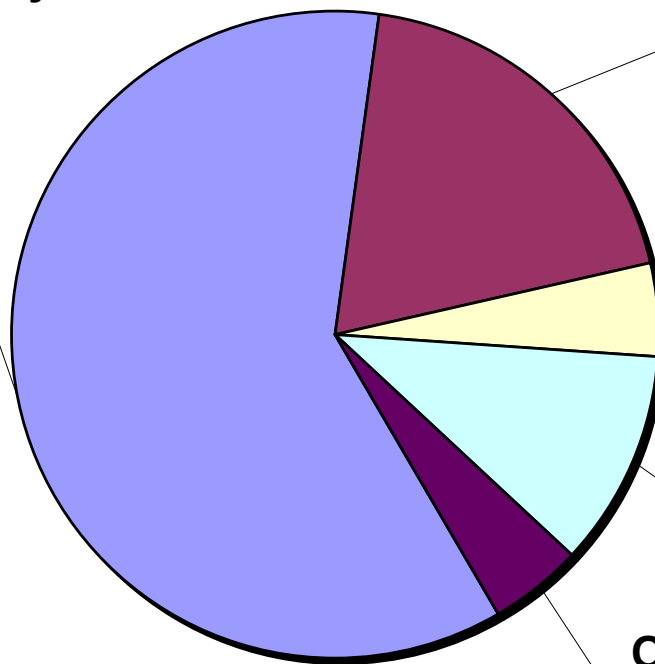
**U.S. Privately
Owned Entity
60%**

**U.S. Public
Company
19%**

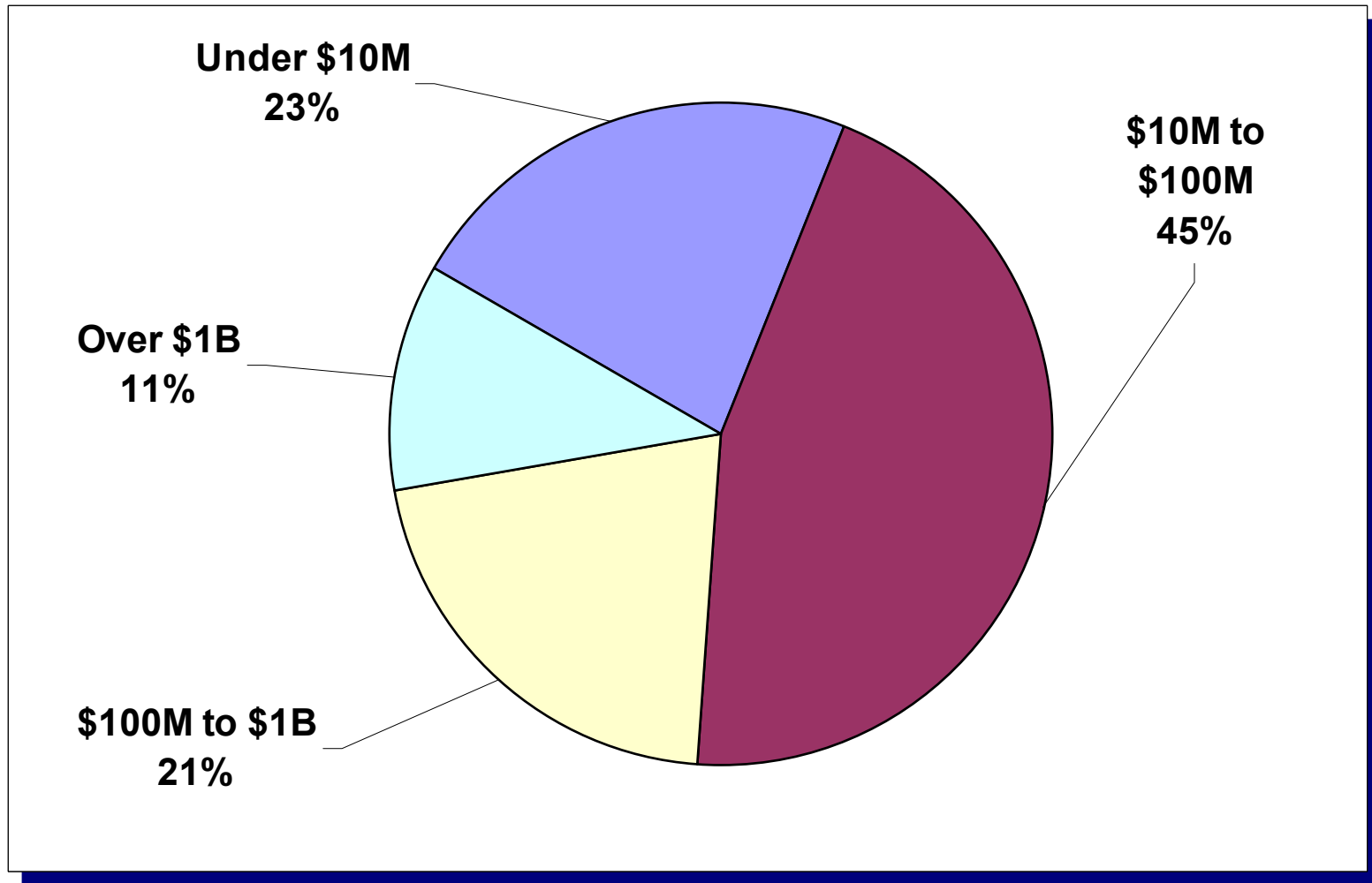
**Foreign
Owned
5%**

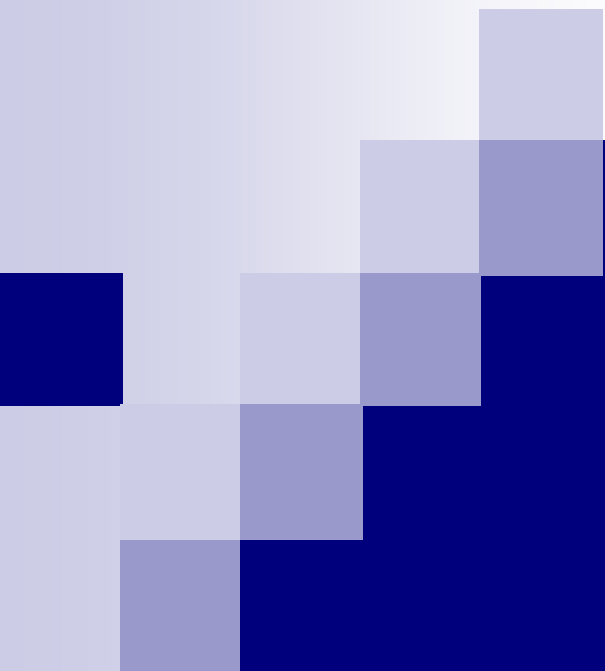
**Gov't, Educ,
Ass'n, NFP
11%**

**Other:
5%**



Respondents by Revenue Size





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