

**AICPA
Business and Industry
Economic Outlook Survey
3Q 2007**

Detailed Survey Results



Survey Background

- Conducted between July 10 and July 31, 2007
- Done semi-annually in 2005 and 2006; quarterly in 2007
- CPA decision makers (primarily CFOs, CEOs & Controllers)
- AICPA members in Business & Industry only
- 1624 total responses; 1470 qualified responses



Executive Summary 1 of 2

- **Responses to all aspects of the survey were extremely stable between 2Q and 3Q**
 - Confirms drop in optimism on the national and state level that occurred between 1Q and 2Q
 - Organizational optimism has remained consistently higher than the general outlook across the quarters

- **Optimism was generally consistent across public, private and not-for-profit organizations but varied somewhat by organization size**
 - Larger organizations (as defined by revenue) were more optimistic for the US economy overall than smaller organizations
 - This was a change from the previous quarter when optimism was the same for all size organizations
 - Organizational optimism remained the same for all size organizations



Executive Summary 2 of 2

■ **Some variation existed across industries**

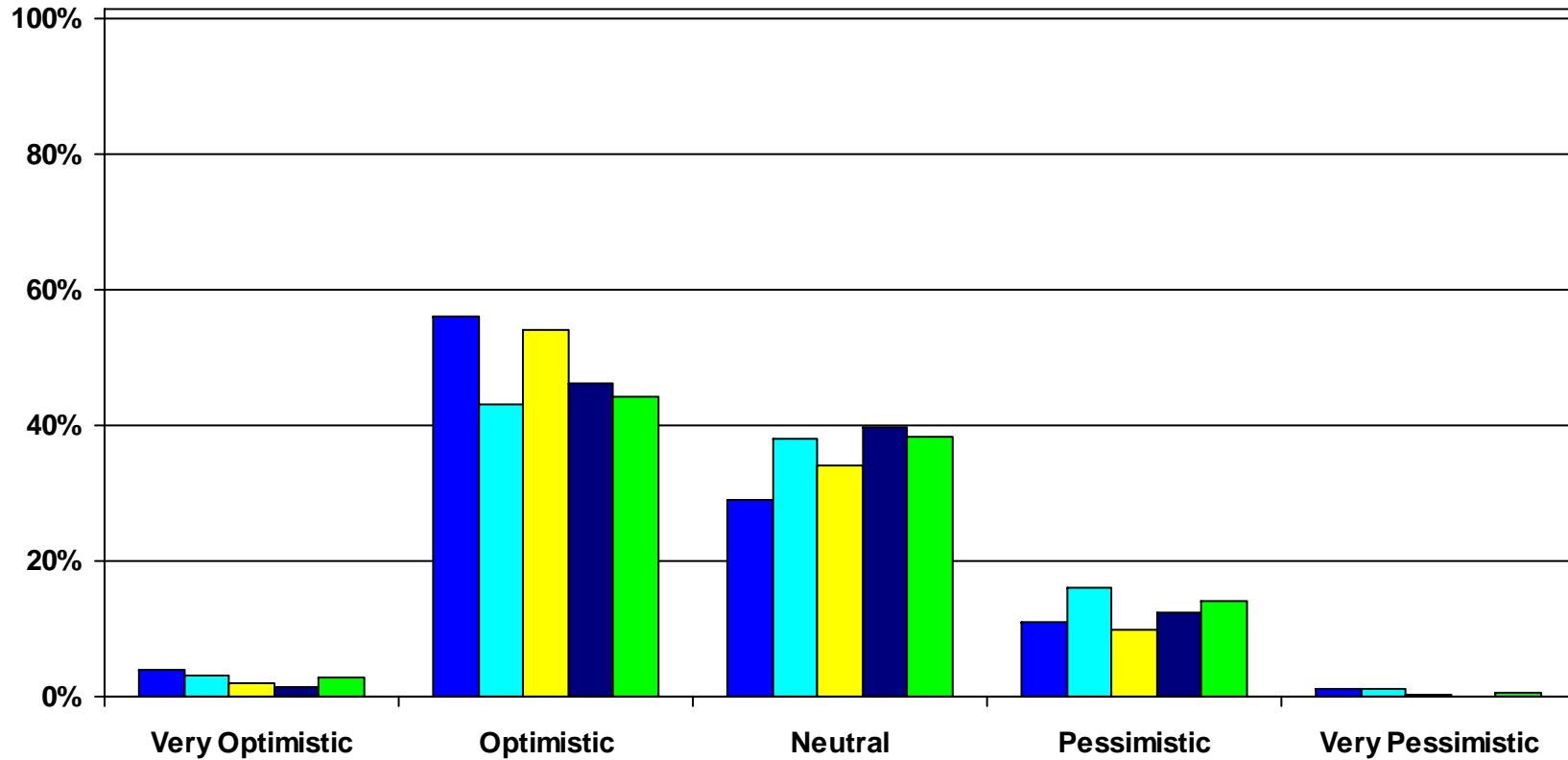
- Respondents from the Mining, Oil & Gas, Manufacturing and Real Estate sectors were more likely to be optimistic about the US economy while respondents from the Finance and Insurance and Professional, Technical and Scientific Services group were more likely to be optimistic about their own organizations
- Respondents from the Retail Trade and Healthcare sectors were more pessimistic about the US economy while Retail Trade and Wholesale Trade respondents were most pessimistic about their own organizations
- Respondents from Healthcare and Professional, Scientific and Technical Services were more likely to answer that their organizations were going to expand while respondents from the Construction and Retail Trade sectors were more likely to indicate their organizations were going to contract (although even in those industries the number of respondents expecting expansion was still twice as many as those expecting contraction)

■ **Concerns about the mortgage and housing market and about government and the political climate were most often mentioned as reasons for decreased optimism about the US this quarter**

Economic Outlook for the US

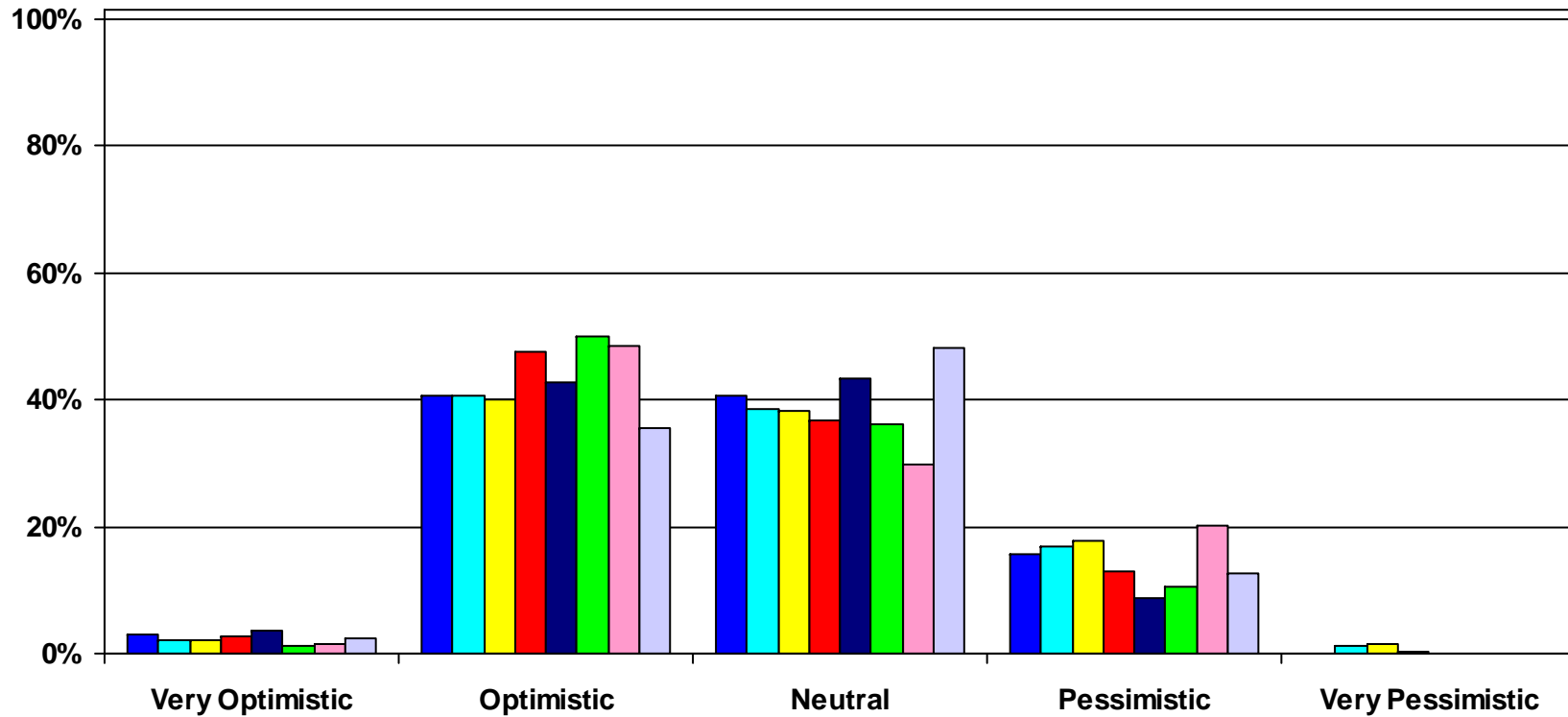
Please select the rating that best describes your view for the economic outlook for the US for the next 12 months.

■ Dec 05 ■ June 06 ■ Jan 07 ■ Apr 07 ■ Jul 07



Economic Outlook for the US by Industry

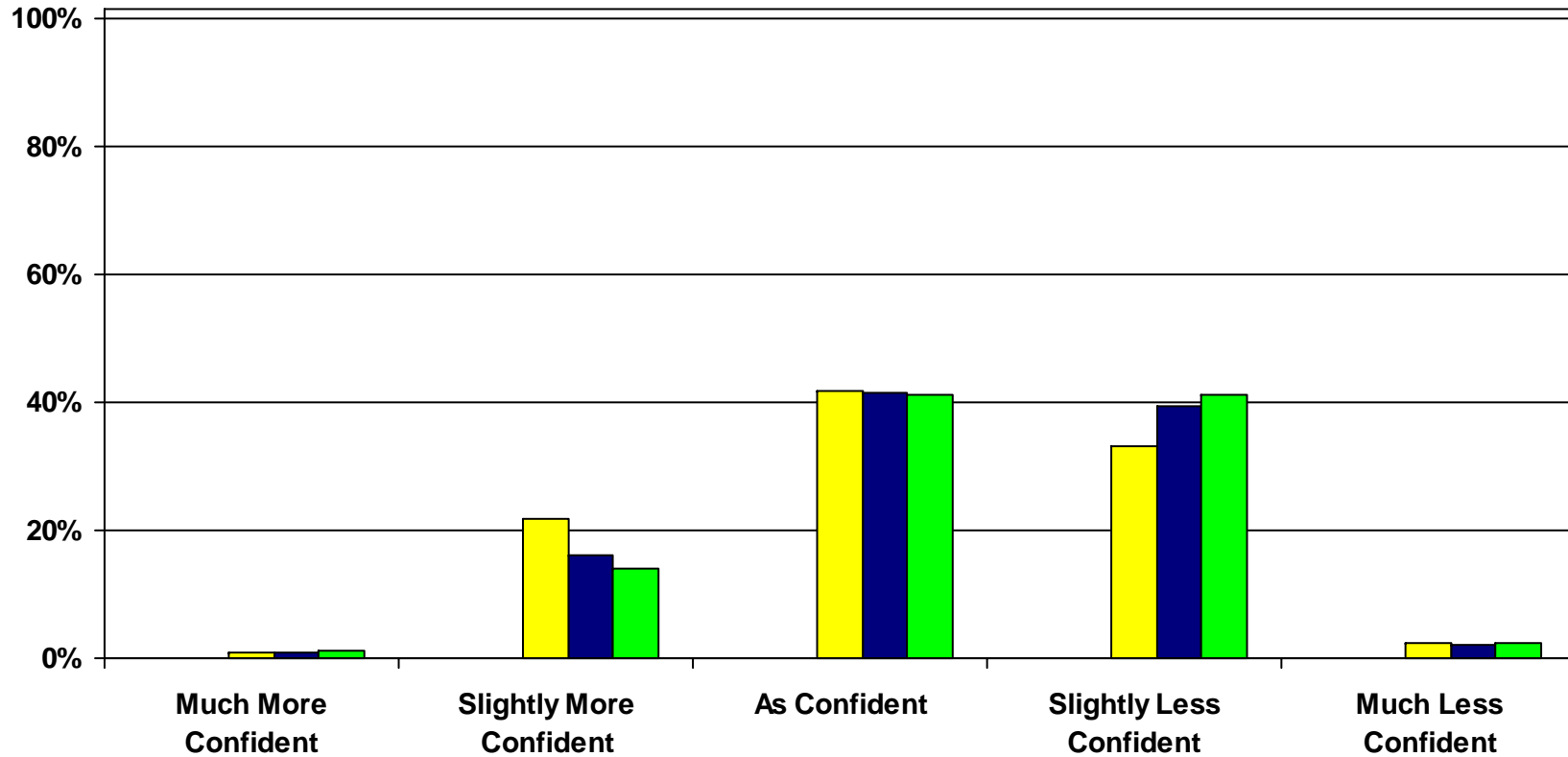
Please select the rating that best describes your view for the economic outlook for the US for the next 12 months.



Change in View US Economic Outlook

Please how your view has changed from the previous twelve month period for the economic outlook for the US for the next 12 months.

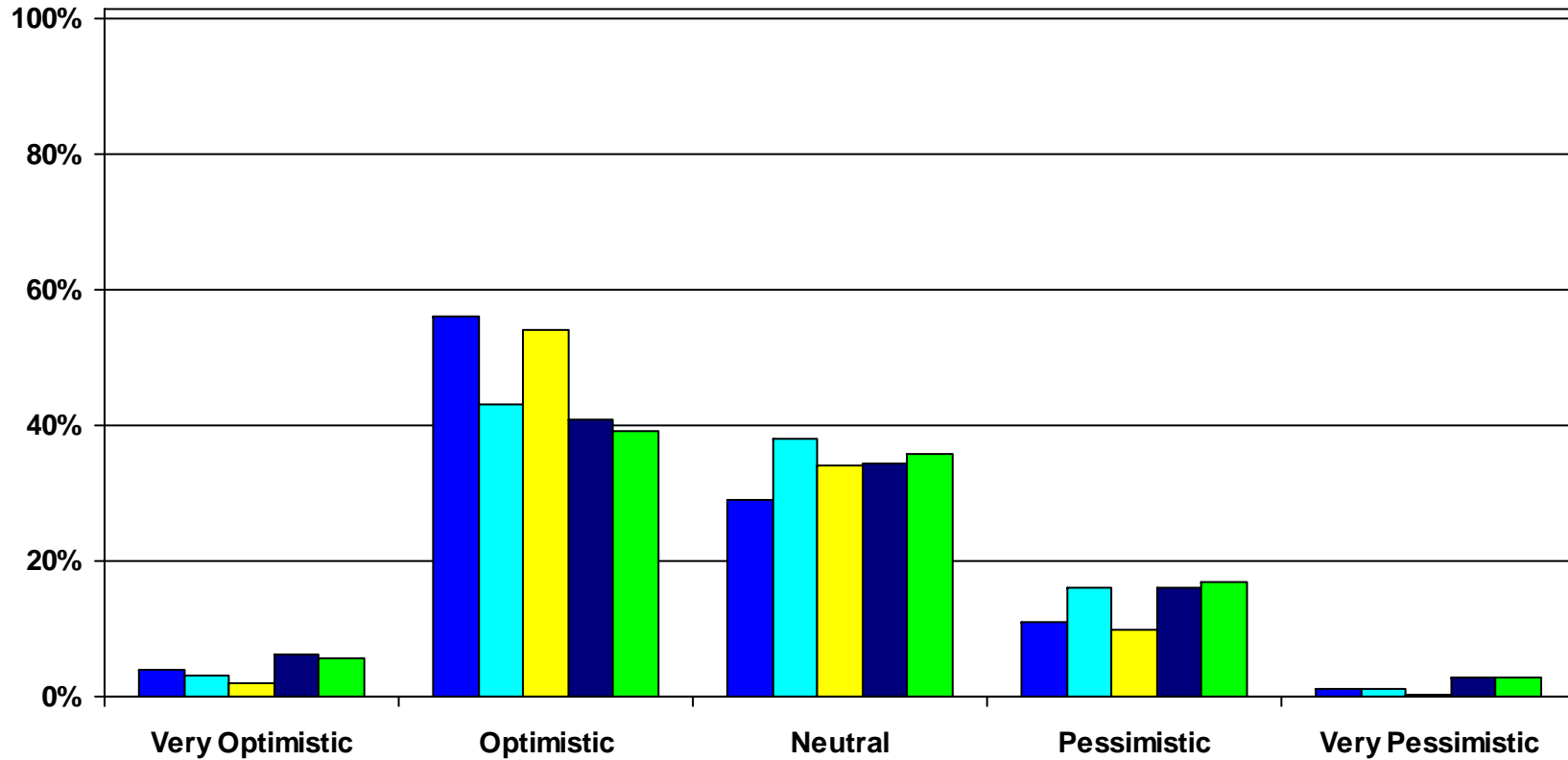
■ Dec 05 ■ June 06 ■ Jan 07 ■ Apr 07 ■ Jul 07



Economic Outlook for Your State

Please select the rating that best describes your view for the economic outlook for your state for the next 12 months.

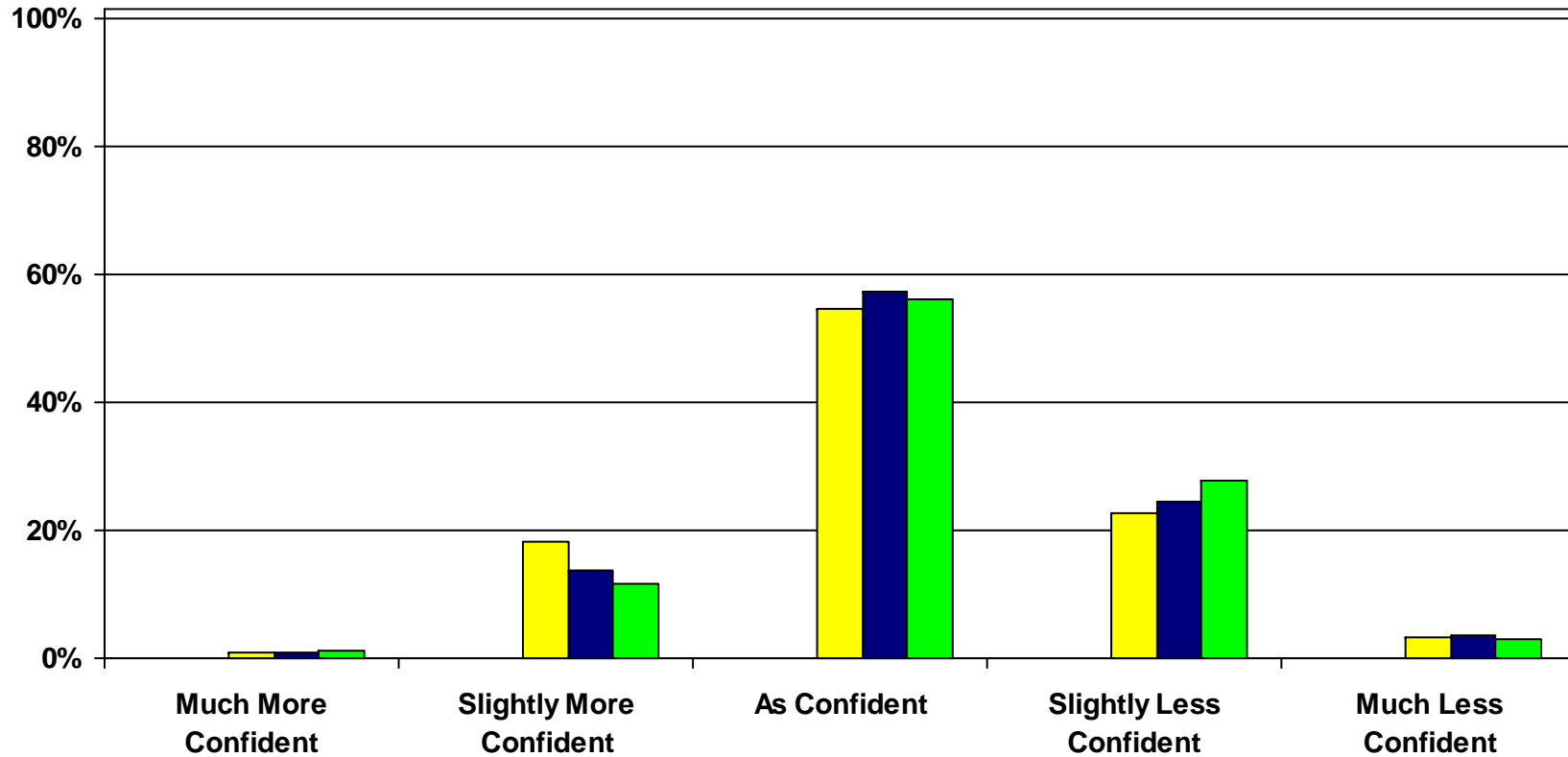
■ Dec 05 ■ June 06 ■ Jan 07 ■ Apr 07 ■ Jul 07



Change in View State Economic Outlook

Please how your view has changed from the previous twelve month period for the economic outlook for your state for the next 12 months.

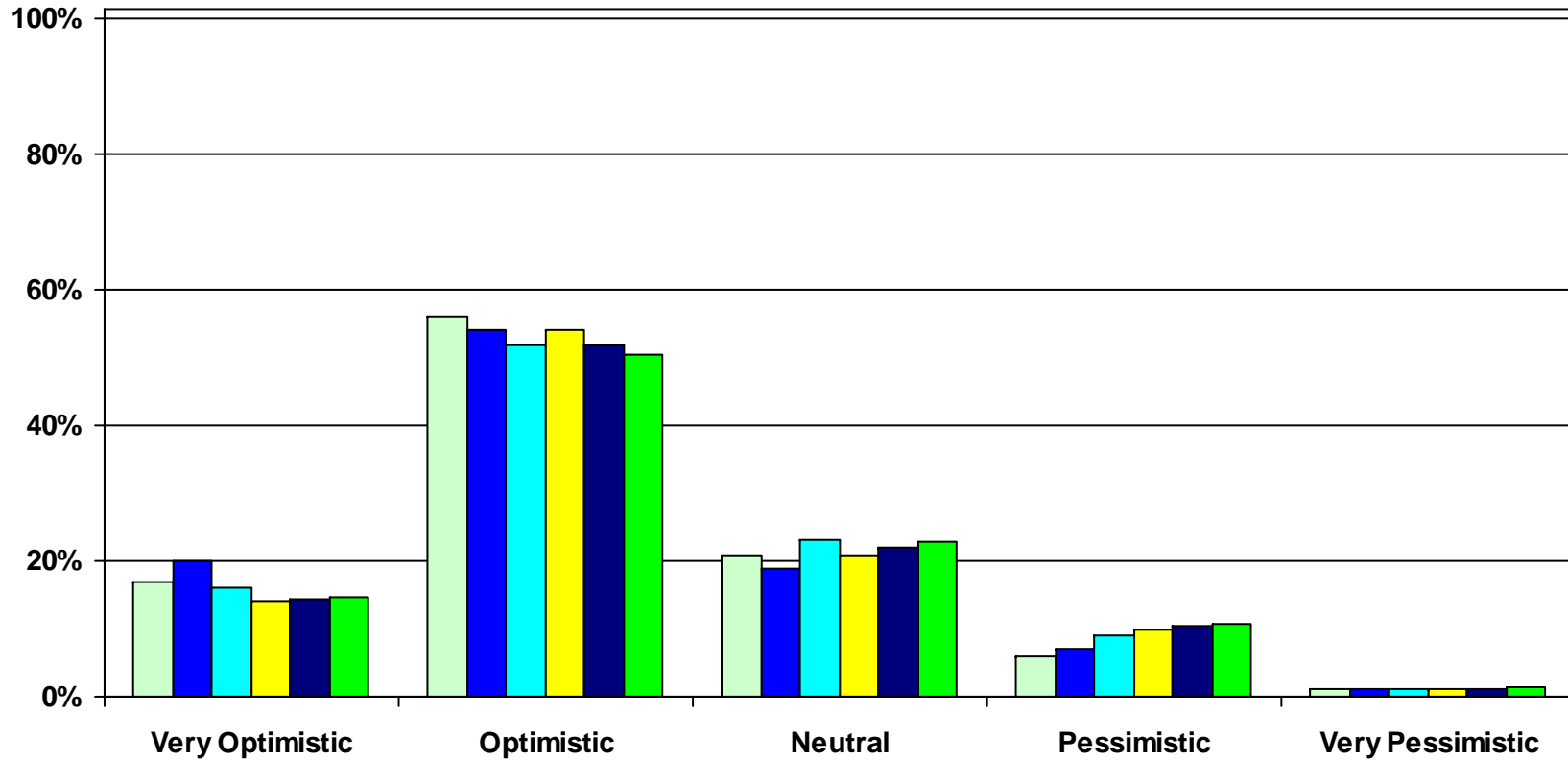
■ Dec 05 ■ June 06 ■ Jan 07 ■ Apr 07 ■ Jul 07



Economic Outlook for Your Own Organization

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

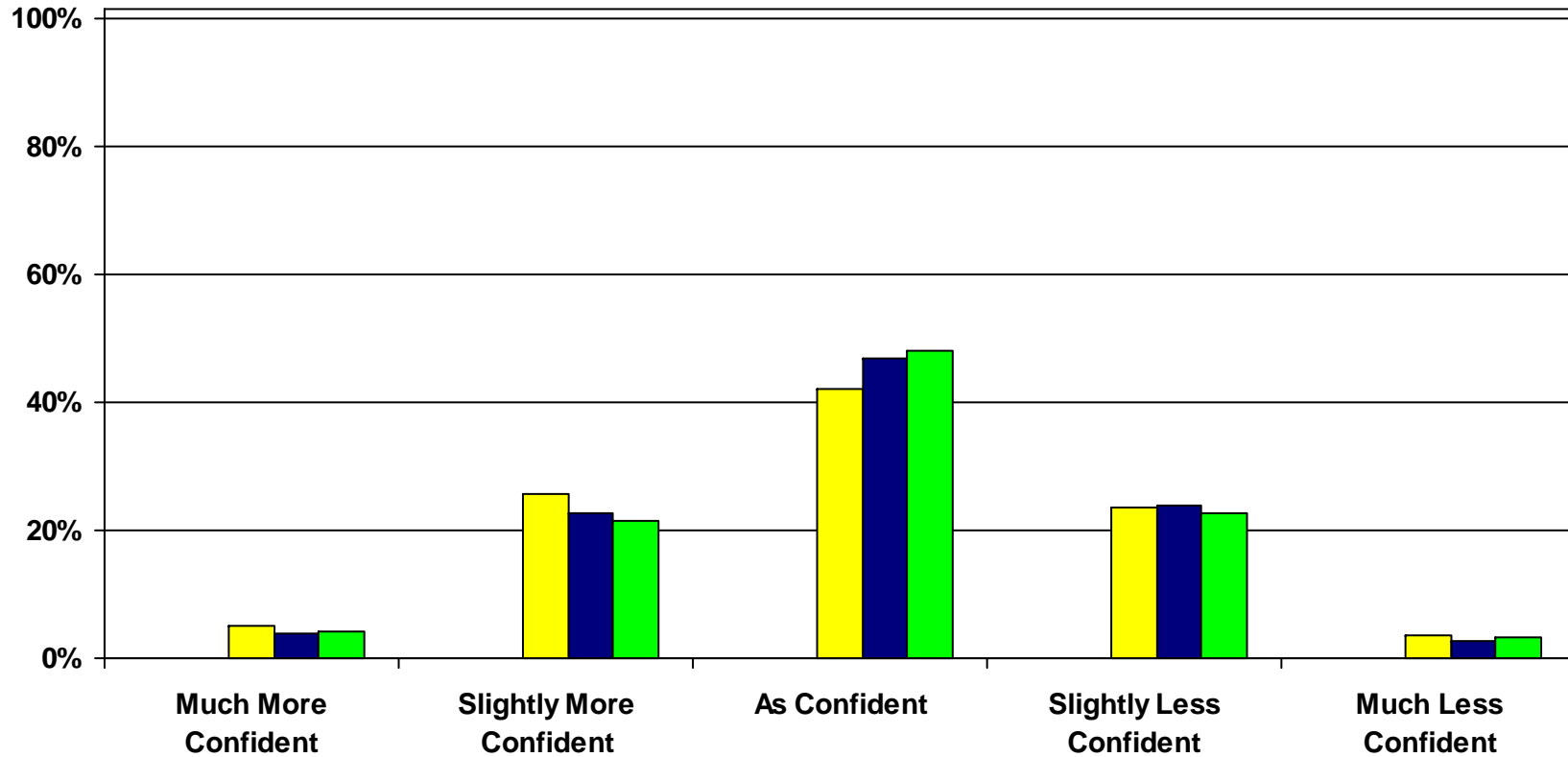
Dec 04 Dec 05 June 06 Jan 07 Apr 07 Jul 07



Change in View Outlook for your Organization

Please how your view has changed from the previous twelve month period for the economic outlook for your organization for the next 12 months.

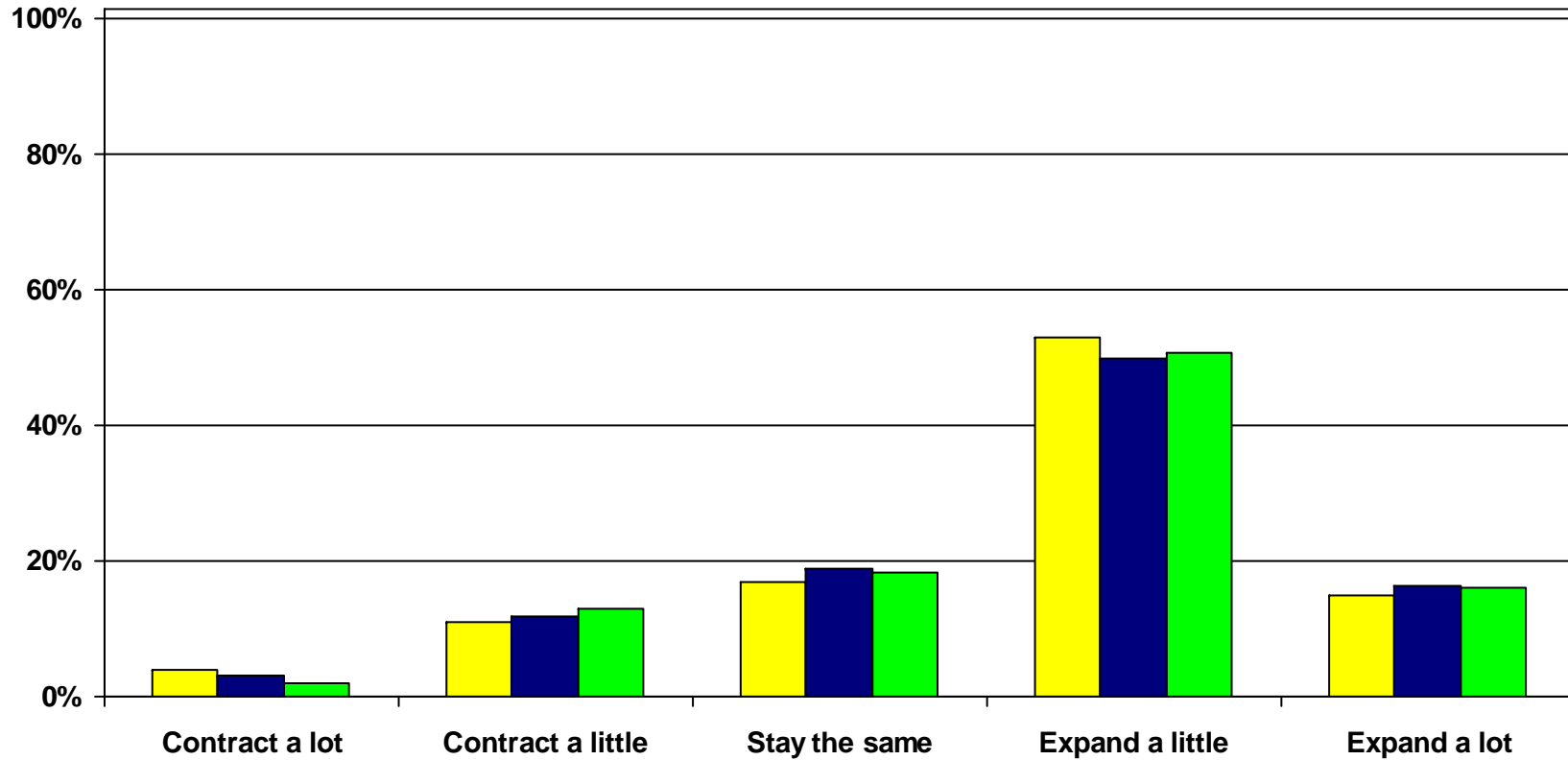
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Expansion/Contraction of Your Own Organization

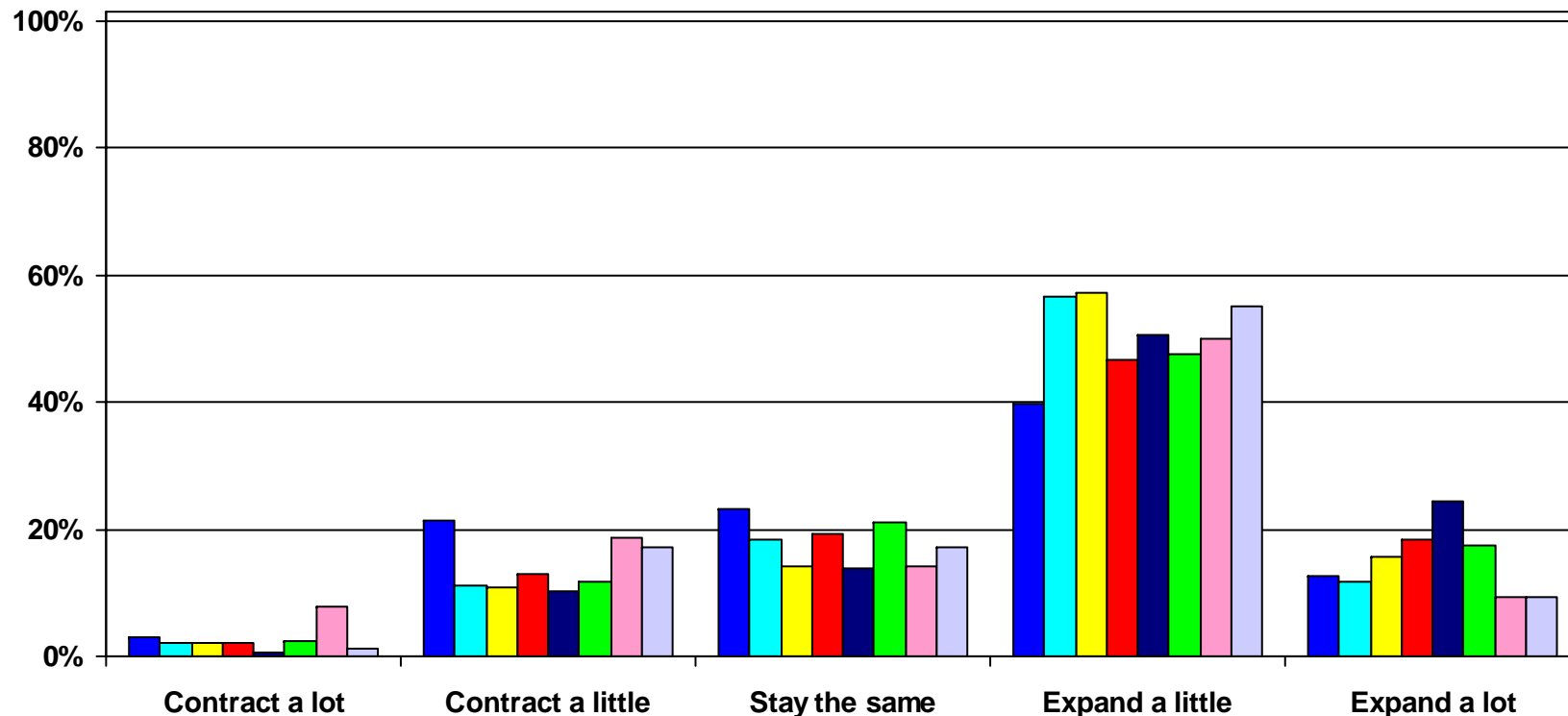
Please indicate whether you expect your business to expand or contract over the next 12 months.

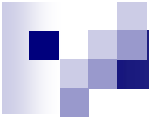
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Expansion/Contraction of Your Own Organization by Industry

Please indicate whether you expect your business to expand or contract over the next 12 months.





Growth Outlook for Organizations for next 12 months

Revenues, Profits, Employees, Costs, Prices and Spending Plans

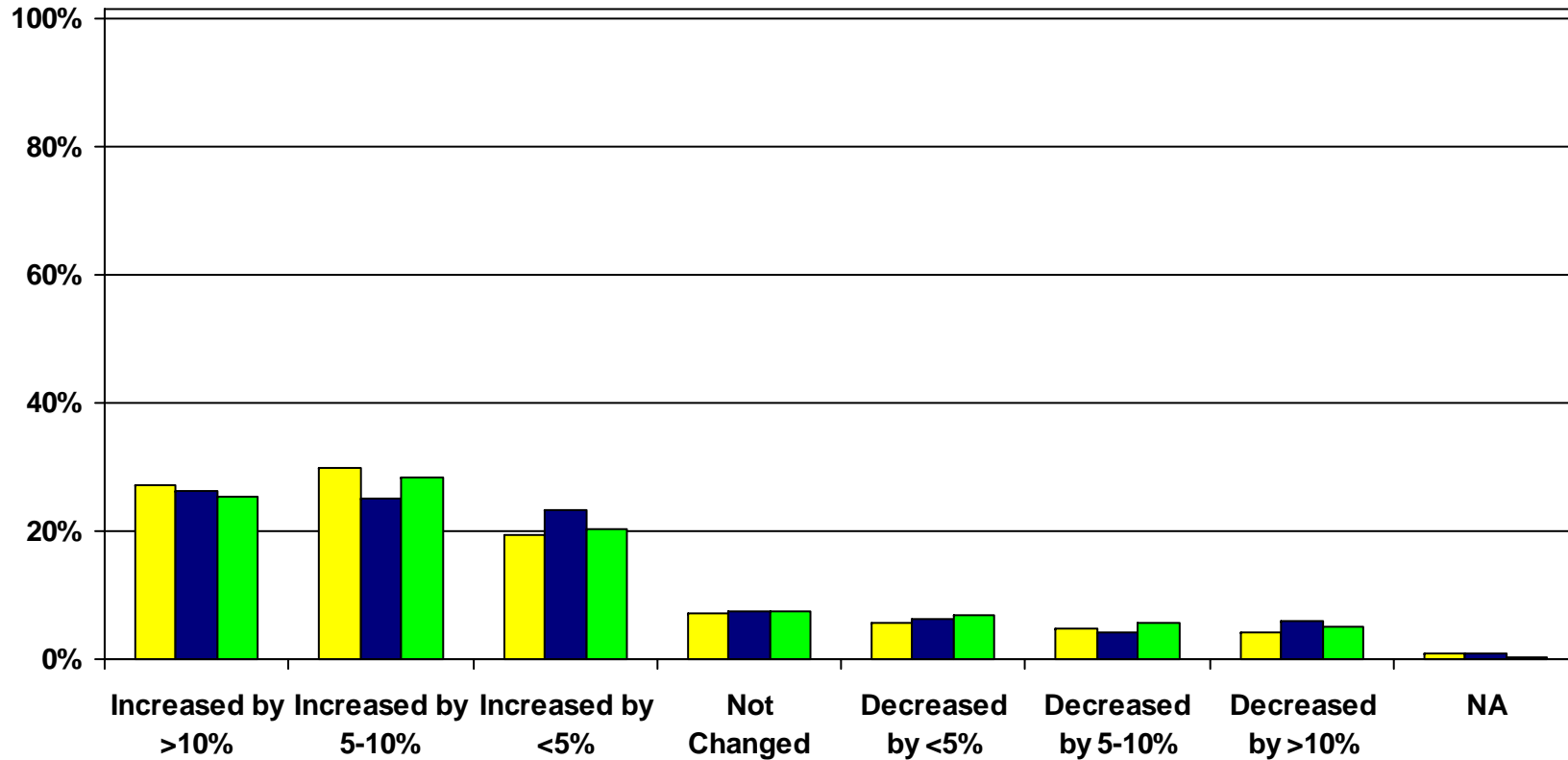
- Expectations remain stable since 2Q
 - Continued optimism concerning organization outlooks is backed by expectations of growth in revenue, profits and employees
 - While some measures show a slight downward trend the movement is not enough to be considered significant
 - As with 1Q & 2Q, more are expecting revenue increases than profit increases
- Reduced expectations for profit increases appear to be driven by a combination of expected increased costs paired with a reduced expectation of being able to raise prices
 - Cost increases are most associated with employees – salaries, benefits and healthcare.
 - Inflation concerns were also voiced by some respondents in open-ended comments
- Spending Plans remain stable

Key Performance Indicators

Total Revenue (Sales)

Thinking about the coming 12 months, please comment on the probably change for your organization for Total Revenue (Sales)

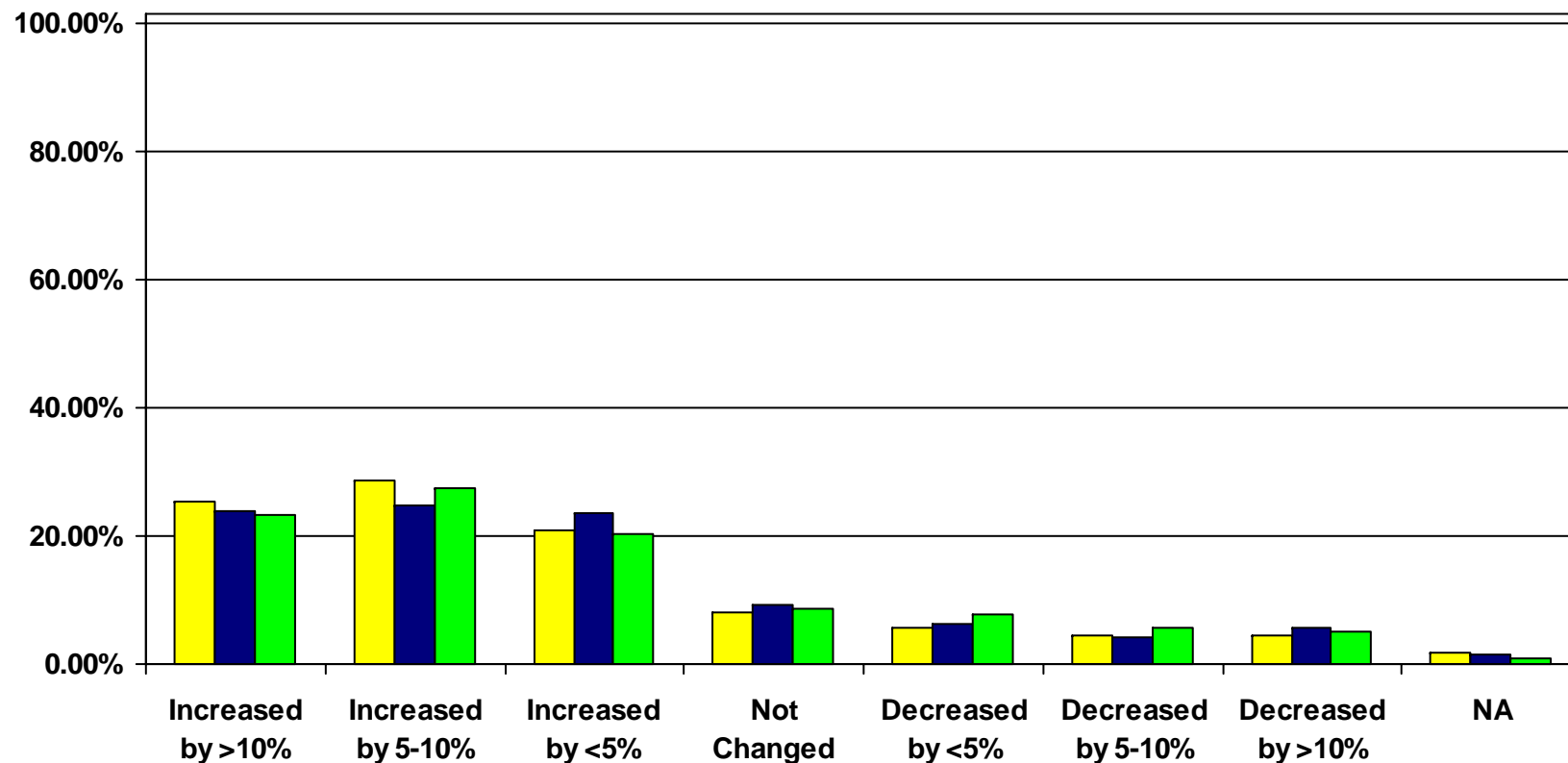
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Key Performance Indicators Revenue (Sales) in US

Thinking about the coming 12 months, please comment on the probable change for your organization for Revenue (Sales) in US

Jan 07 Apr 07 Jul 07

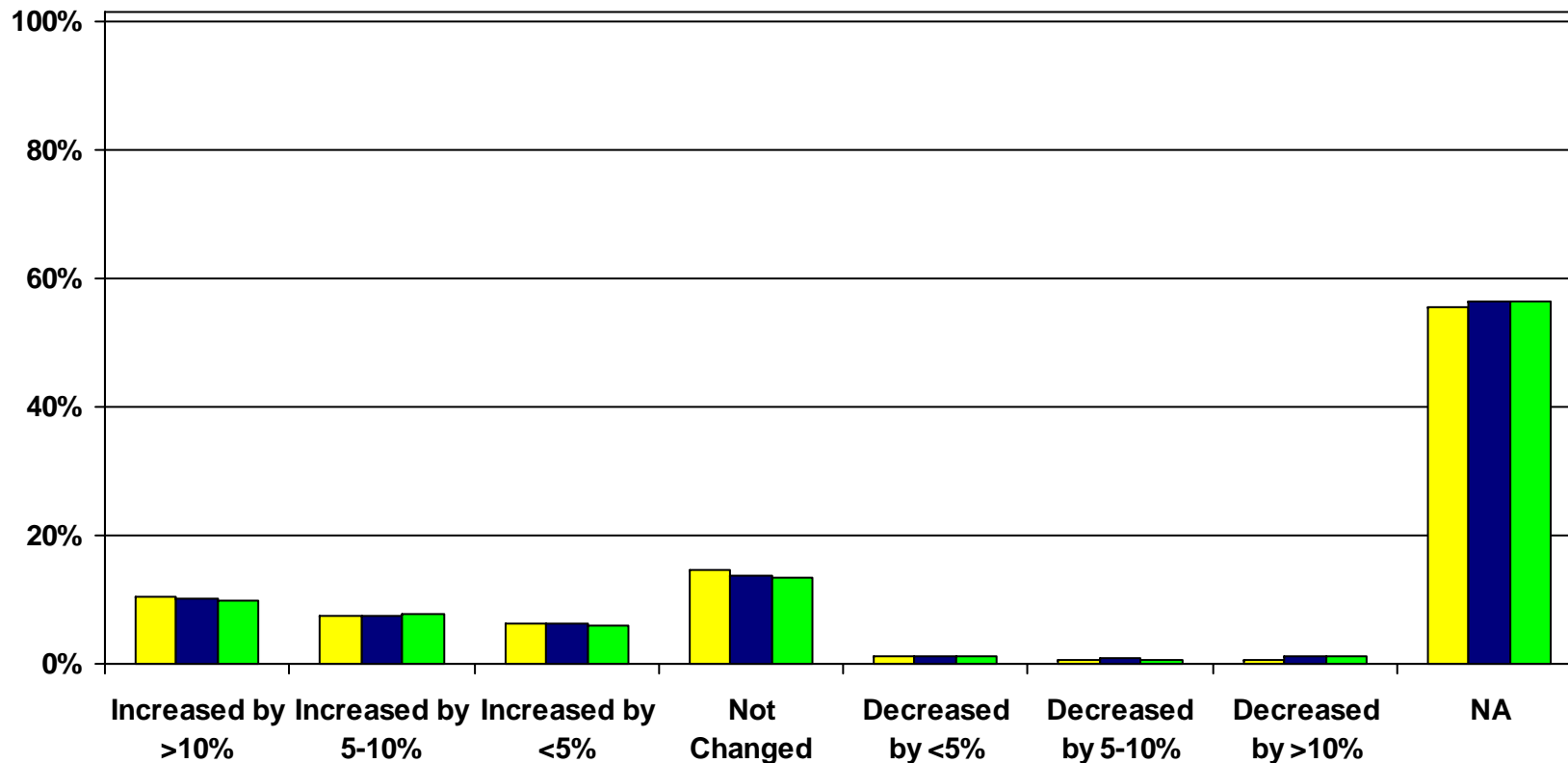


Key Performance Indicators

Revenue (Sales) outside of US

Thinking about the coming 12 months, please comment on the probable change for your organization for Revenue (Sales) outside of US

Jan 07 Apr 07 Jul 07

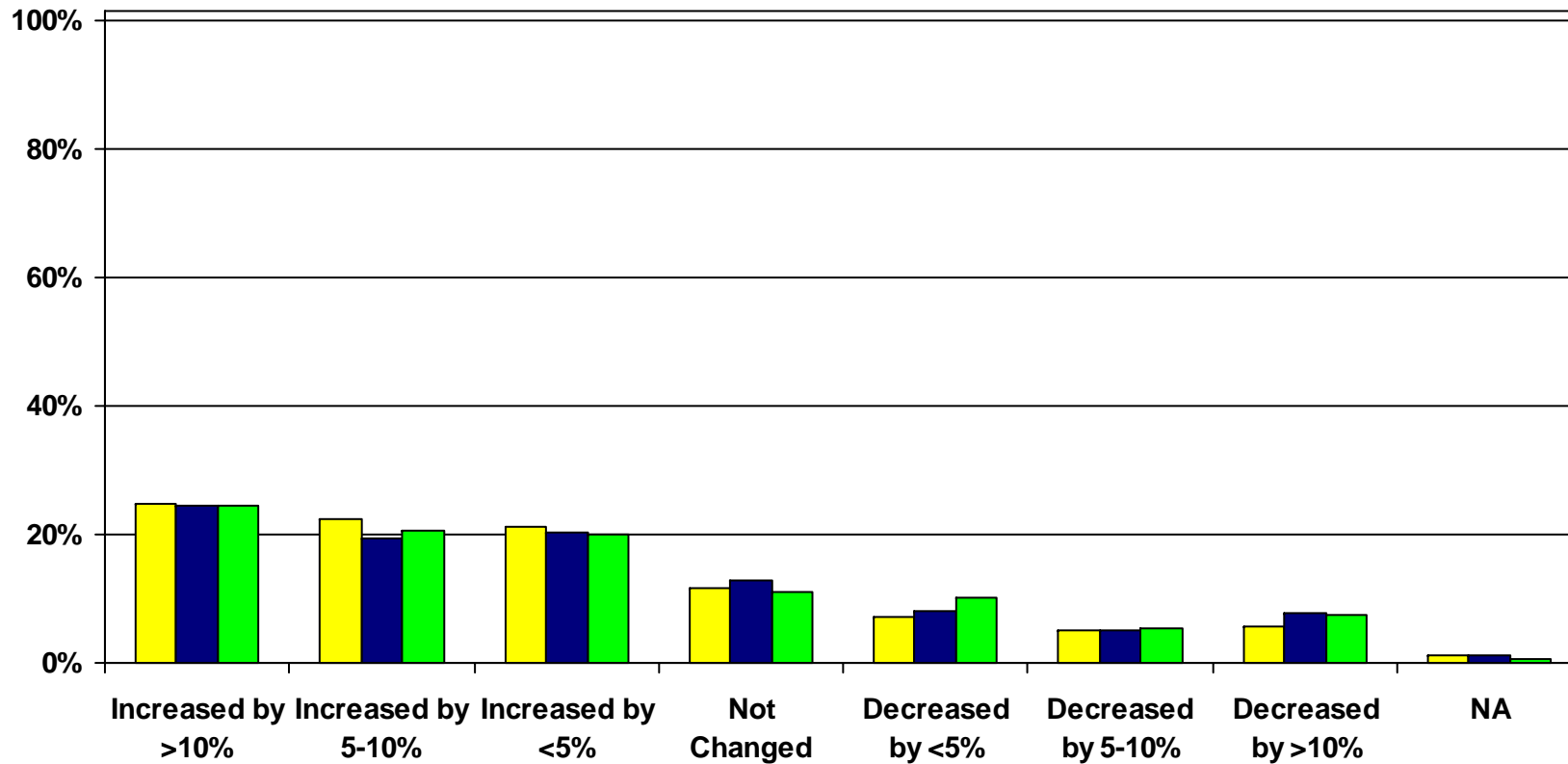


Key Performance Indicators

Total Profits (Net Income)

Thinking about the coming 12 months, please comment on the probable change for your organization for Total Profits (Net Income)

Jan 07 Apr 07 Jul 07

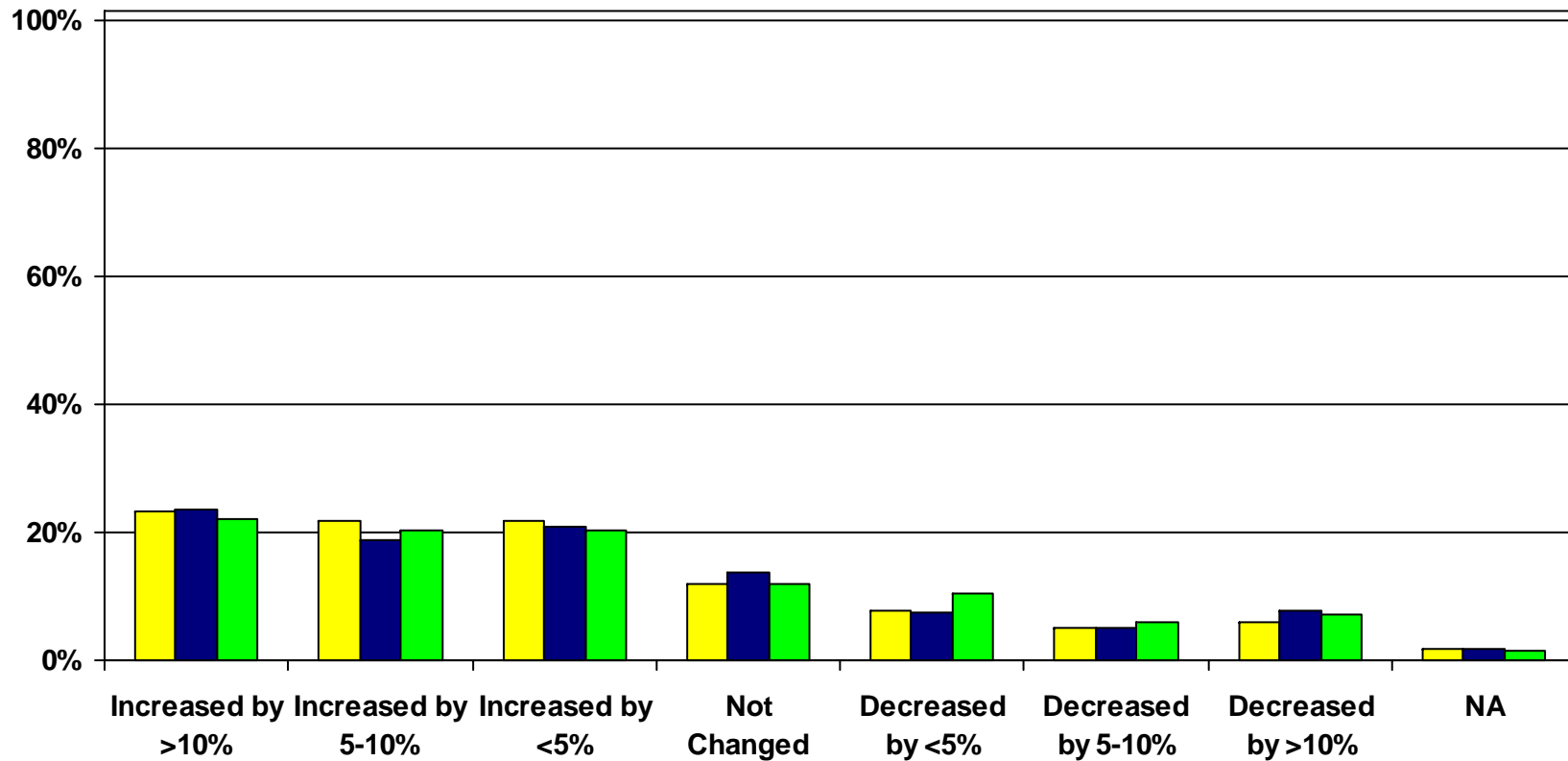


Key Performance Indicators

Total Profits from US

Thinking about the coming 12 months, please comment on the probable change for your organization for Total Profits (Net Income) from US

Jan 07 Apr 07 Jul 07

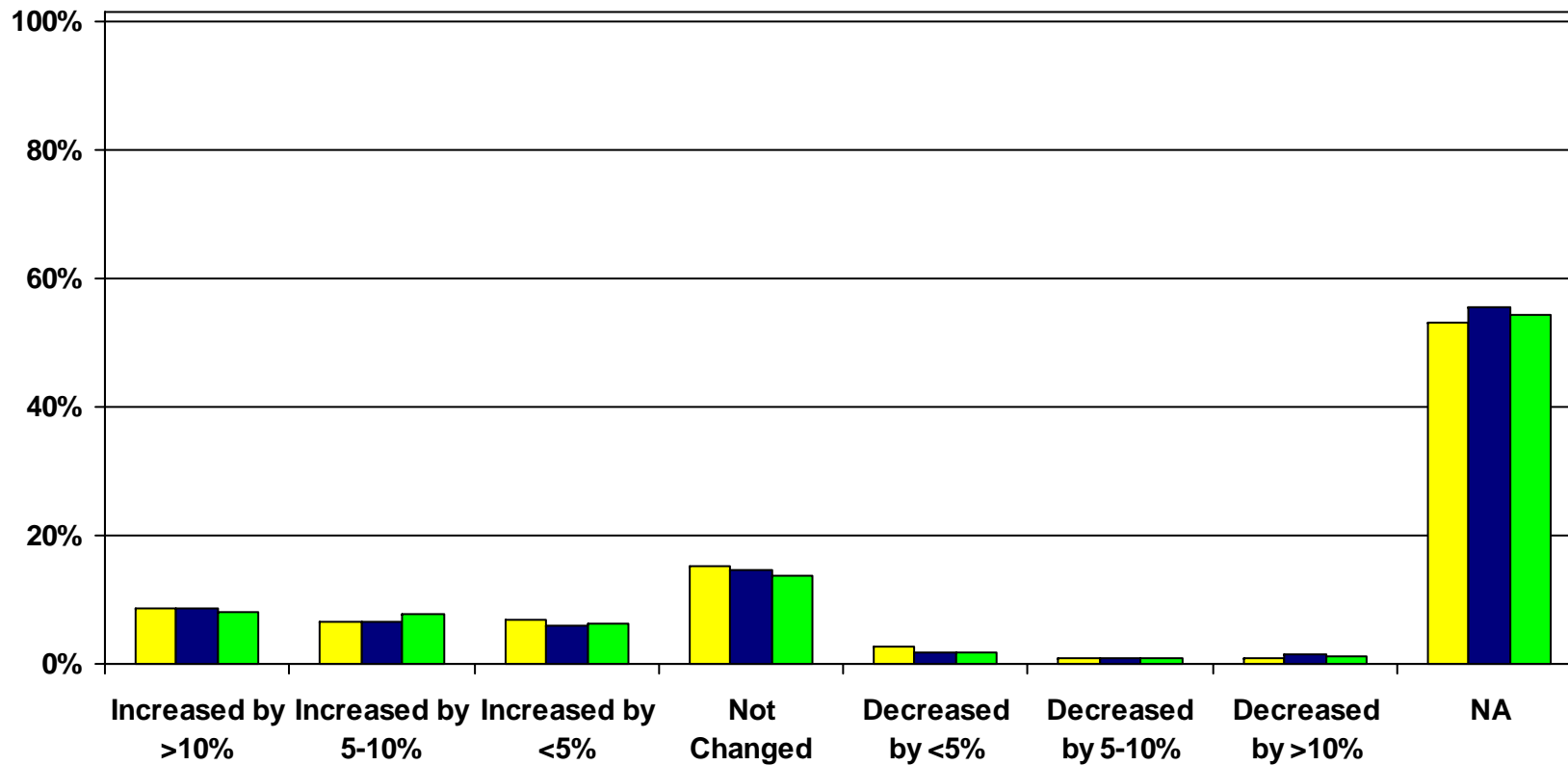


Key Performance Indicators

Total Profits from outside of US

Thinking about the coming 12 months, please comment on the probable change for your organization for Total Profits (Net Income) from outside of US

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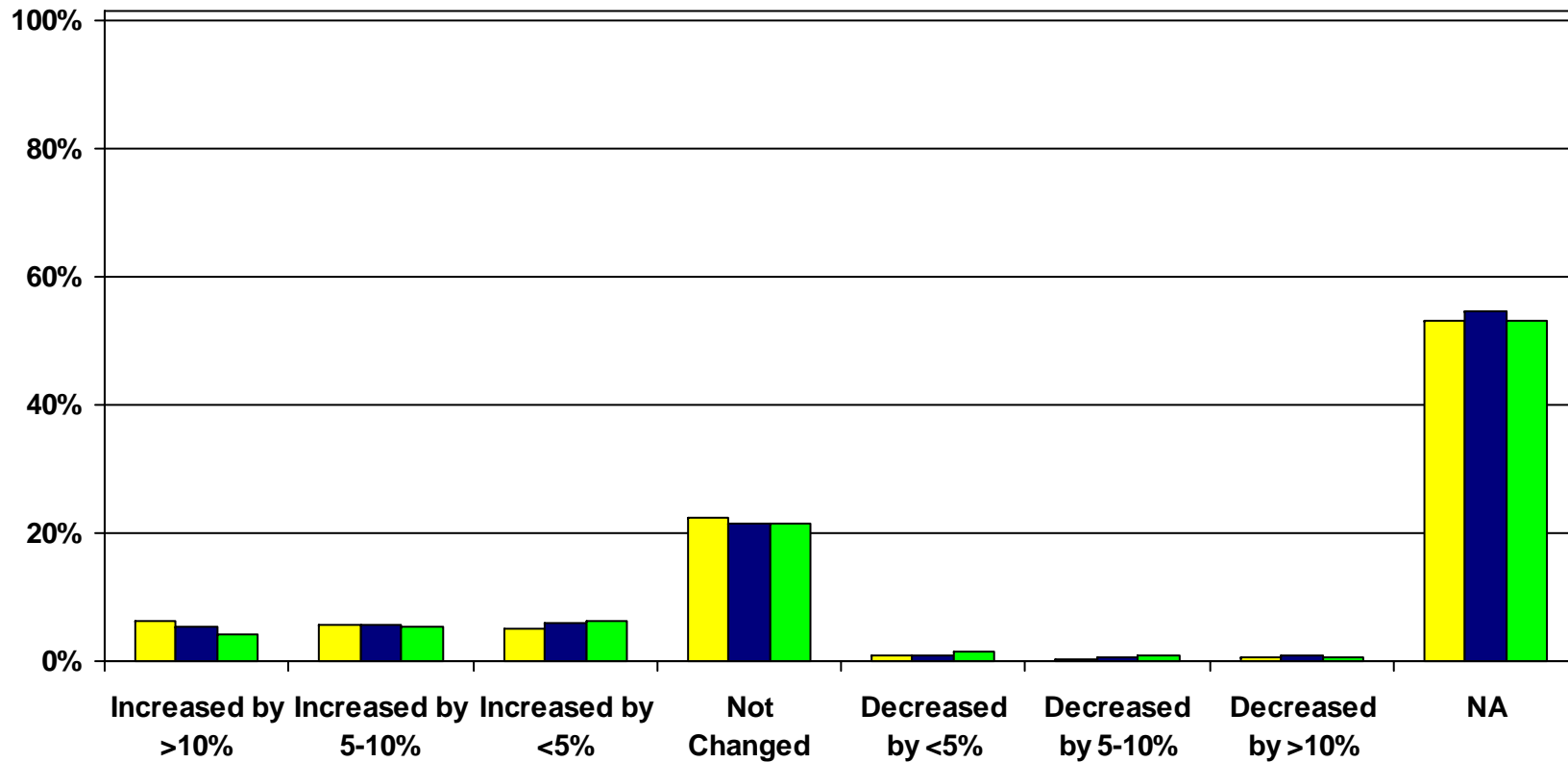


Key Performance Indicators

Import of goods/services from outside of the US

Thinking about the coming 12 months, please comment on the probable change for your organization for Import of Goods/Services from outside of the US

Jan 07 Apr 07 Jul 07

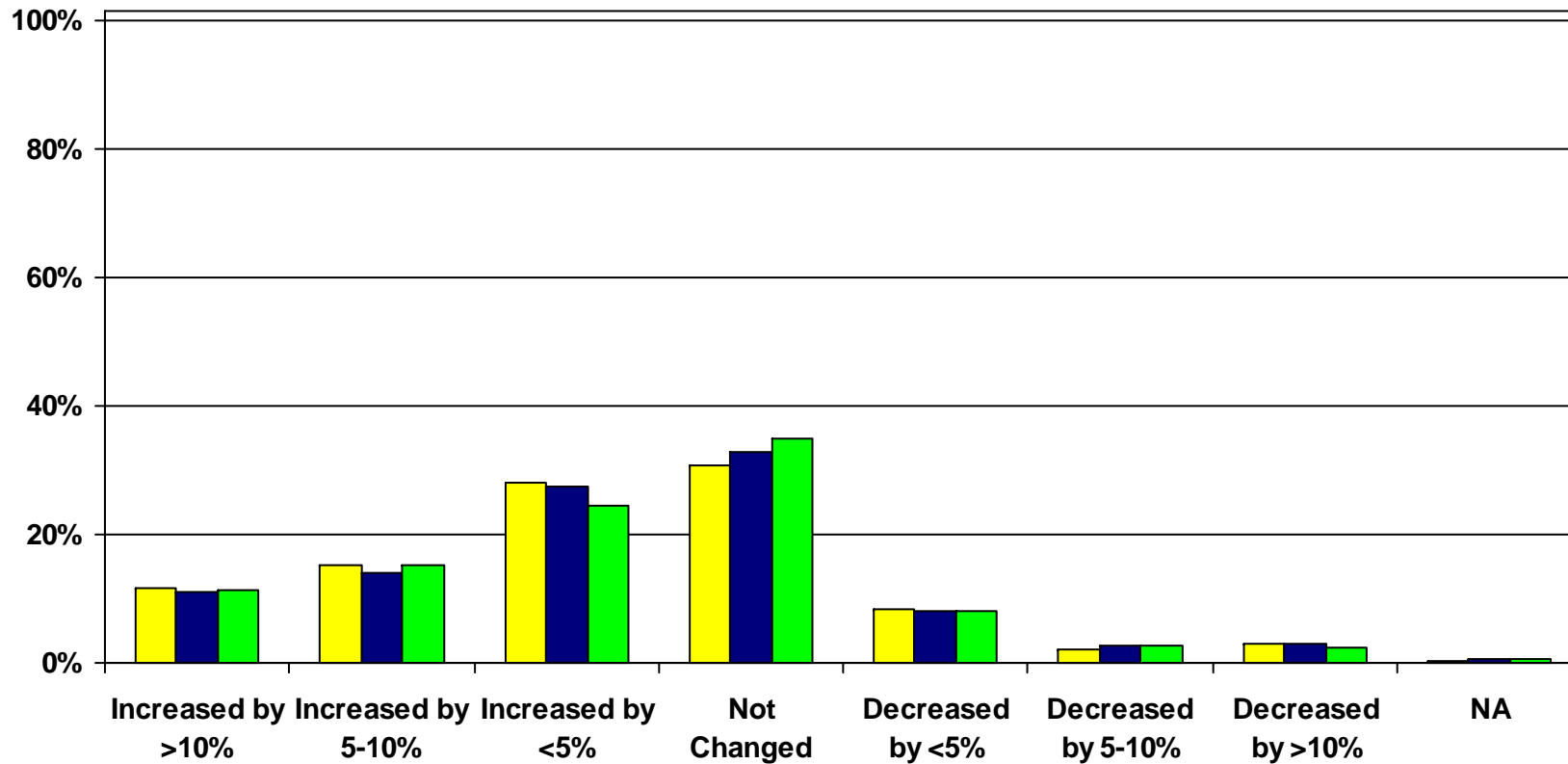


Key Performance Indicators

Number of Employees

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

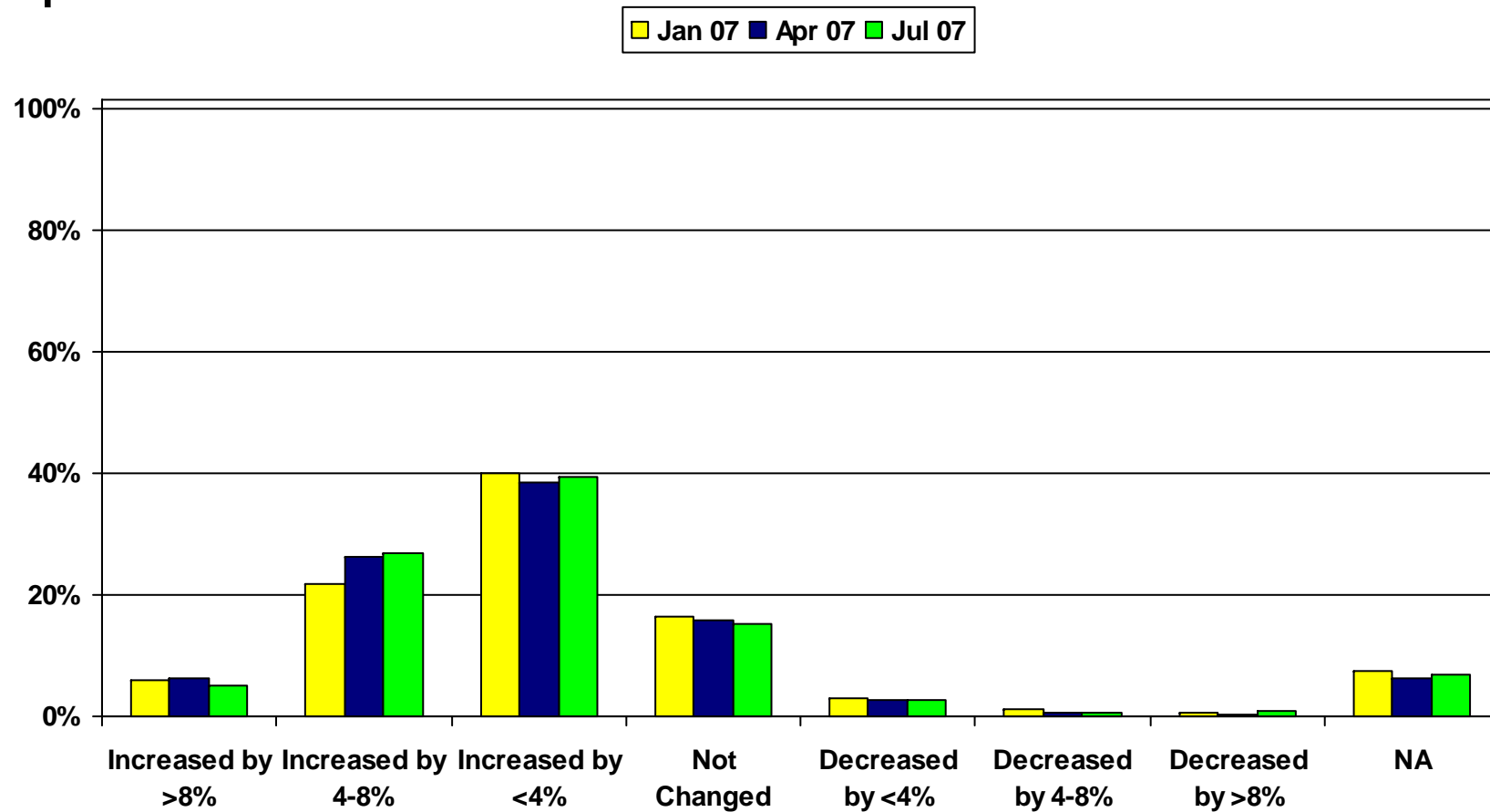
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Pricing & Costs

Input Prices

Thinking about the coming 12 months, please comment on the probable change for your organization for Input Prices

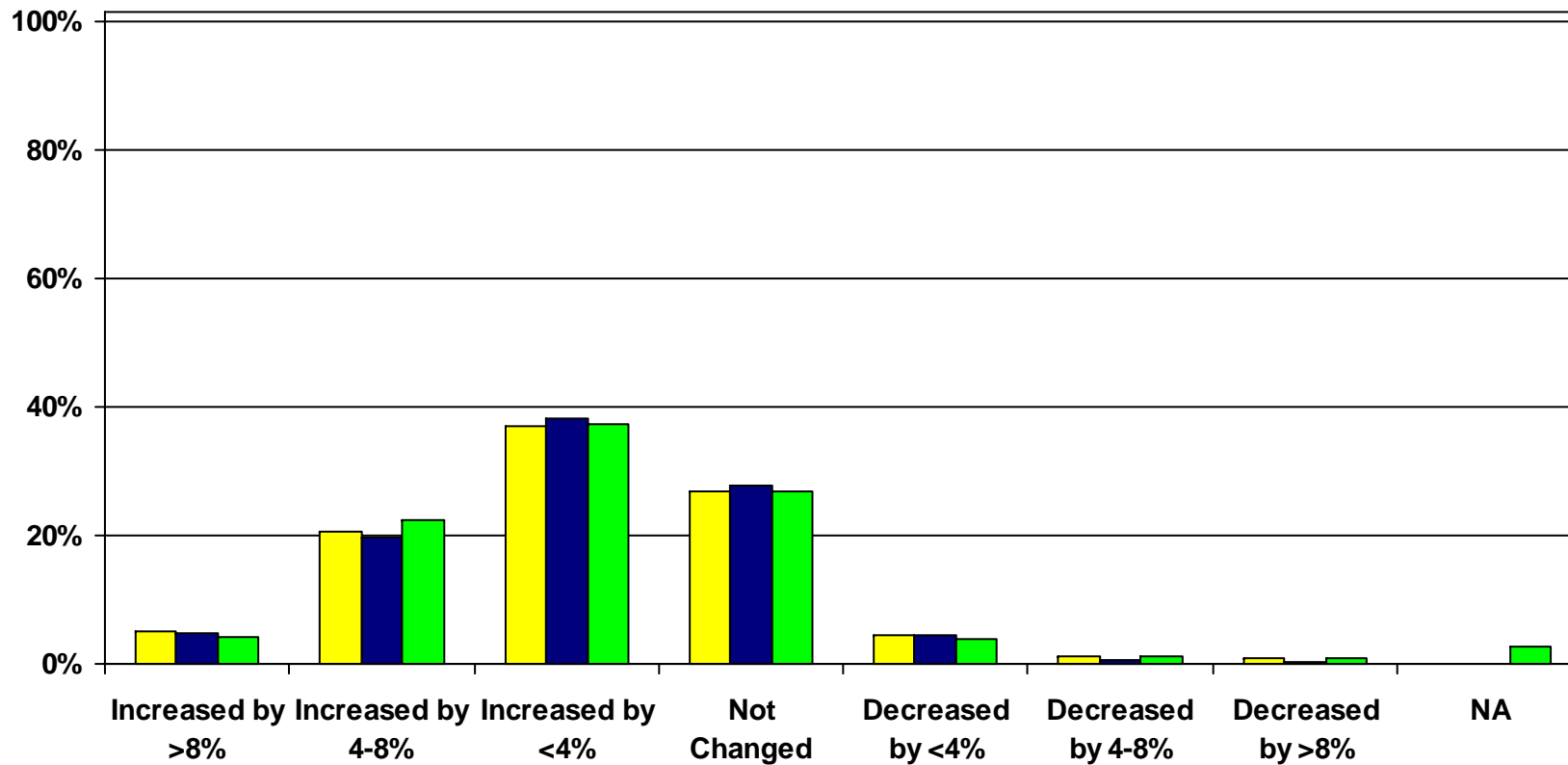


Pricing & Costs

Prices your Organization Charges

Thinking about the coming 12 months, please comment on the probable change for your organization for Prices your organization charges

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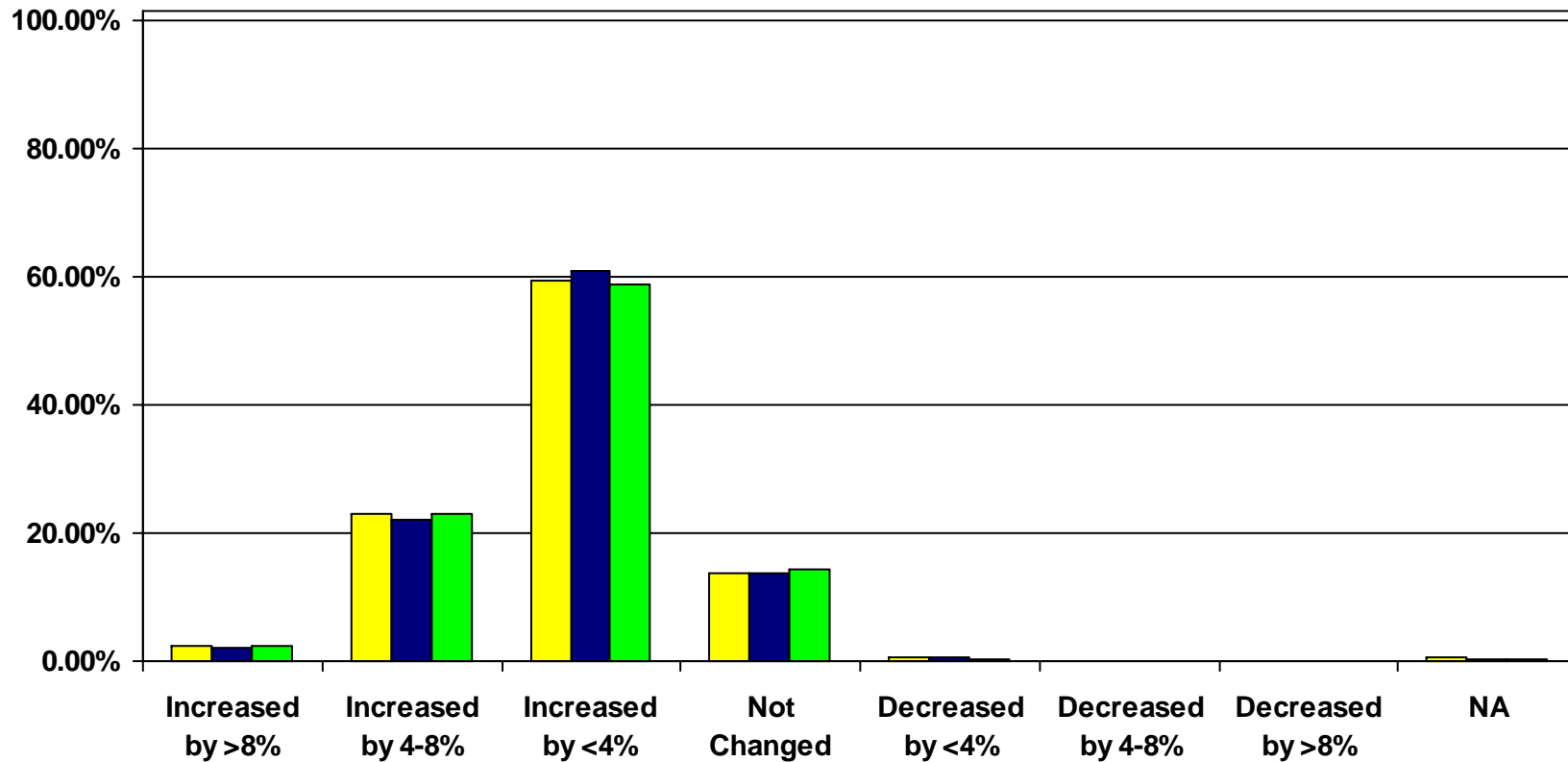


Pricing & Costs

Average Basic Salary

Thinking about the coming 12 months, please comment on the probable change for your organization for Average Basic Salary

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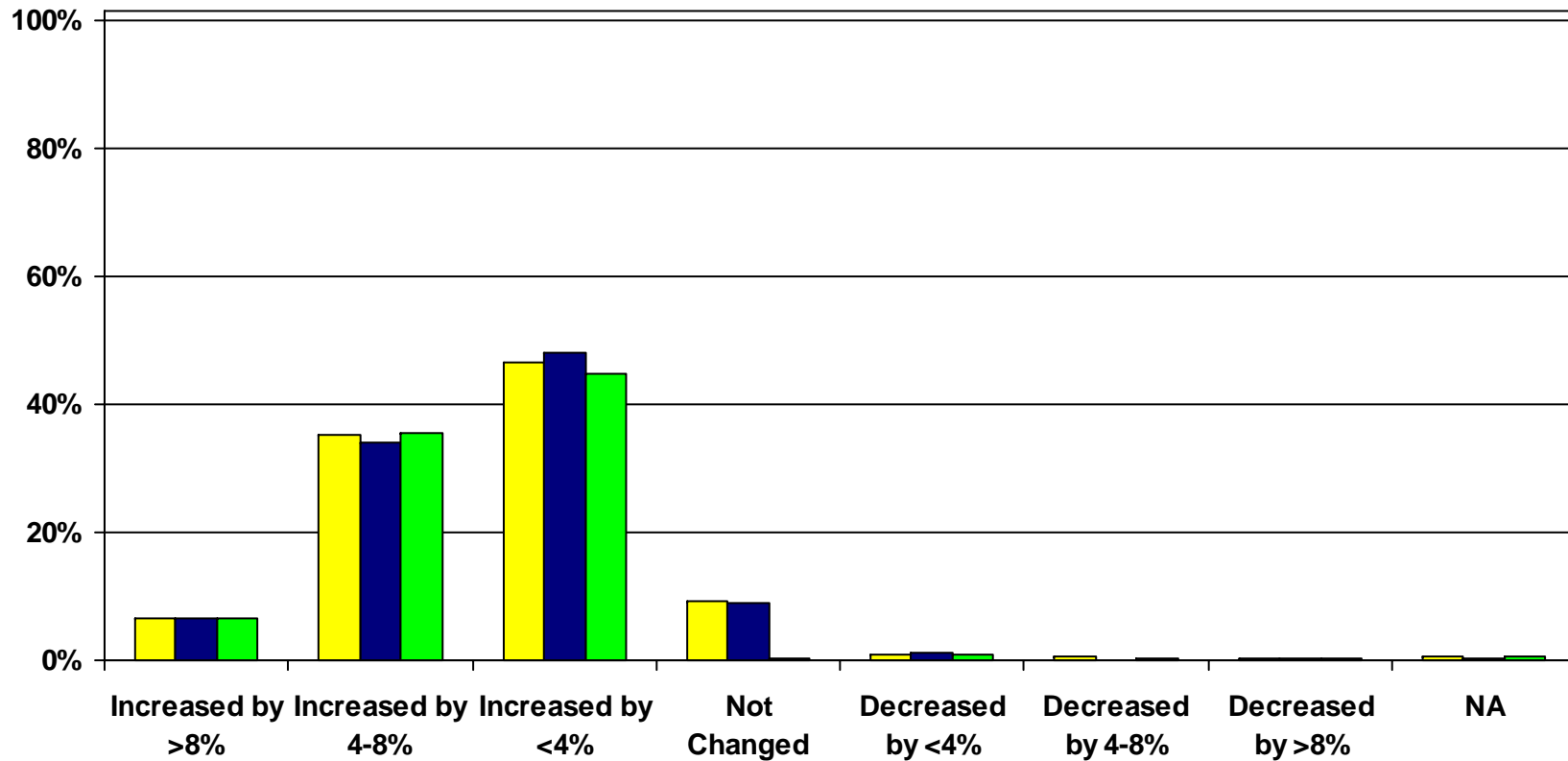


Pricing & Costs

Average total salary & benefit package (excluding healthcare)

Thinking about the coming 12 months, please comment on the probable change for your organization for the average total salary & benefit package (excluding healthcare)

Jan 07 Apr 07 Jul 07

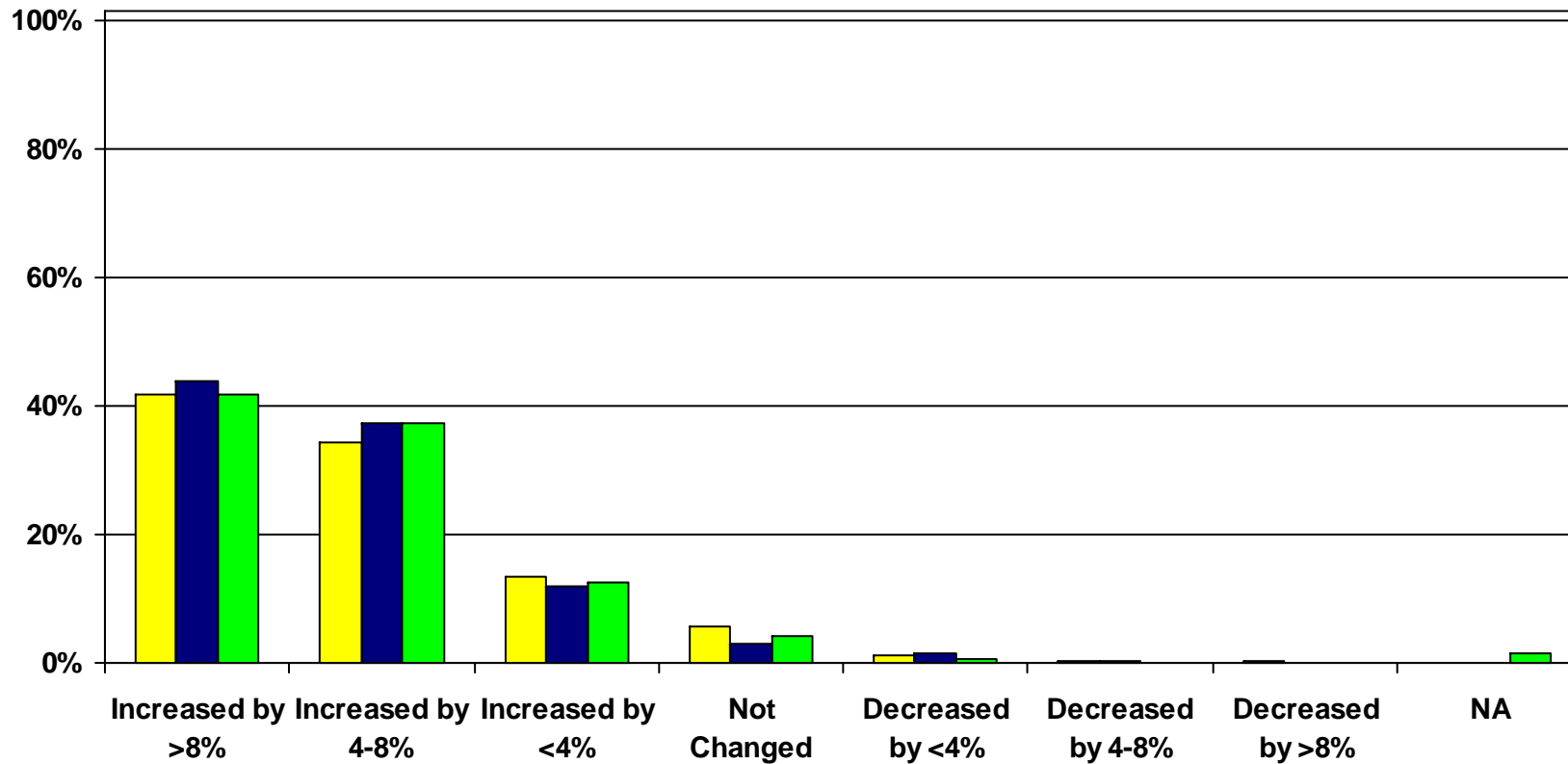


Pricing & Costs

Healthcare Costs

Thinking about the coming 12 months, please comment on the probable change for your organization for Healthcare Costs

Jan 07 Apr 07 Jul 07

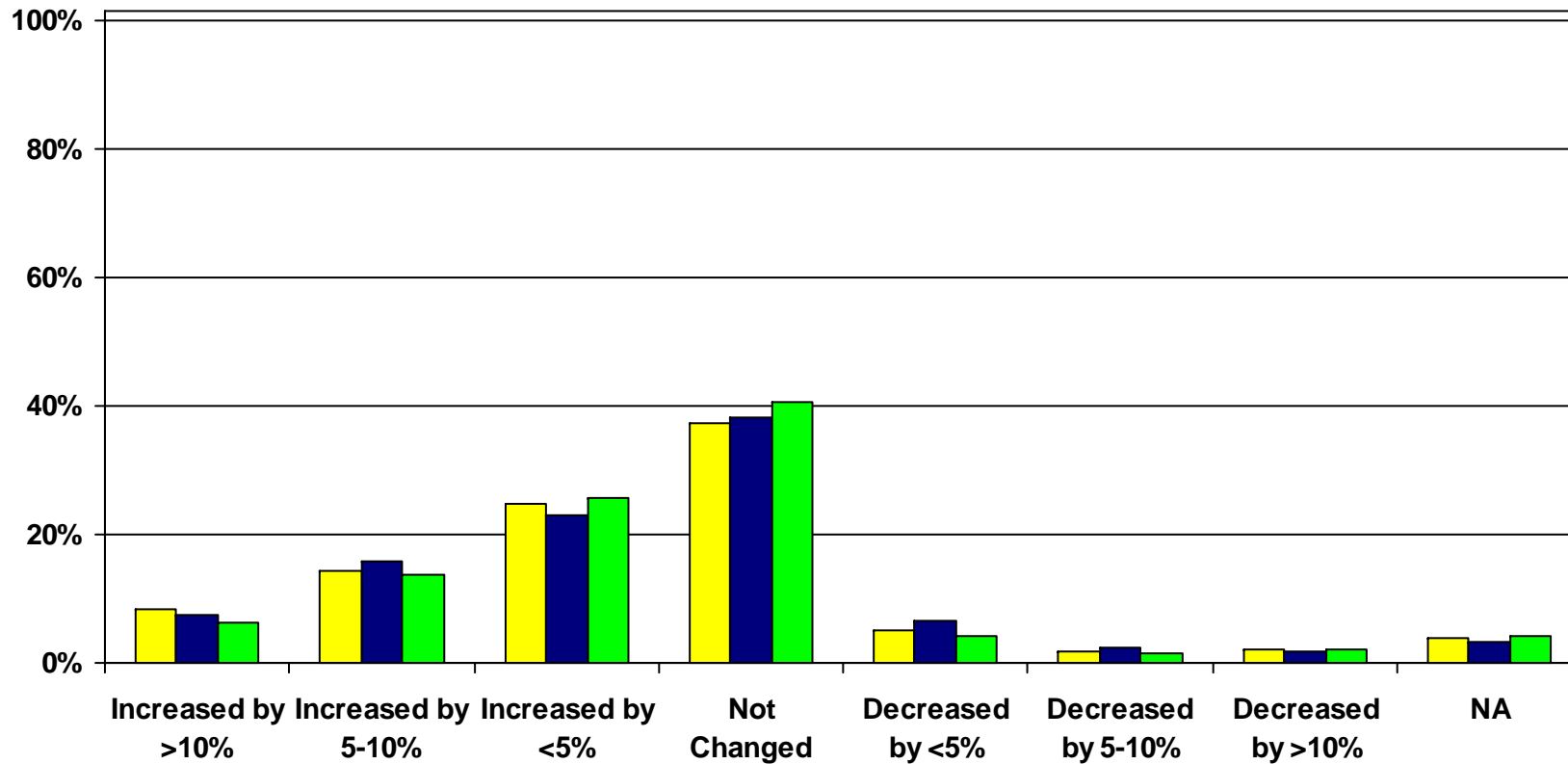


Spending & Financing Plans

Advertising, Sales & Marketing

Thinking about the coming 12 months, please comment on the probable change for your organization for advertising, sales & marketing

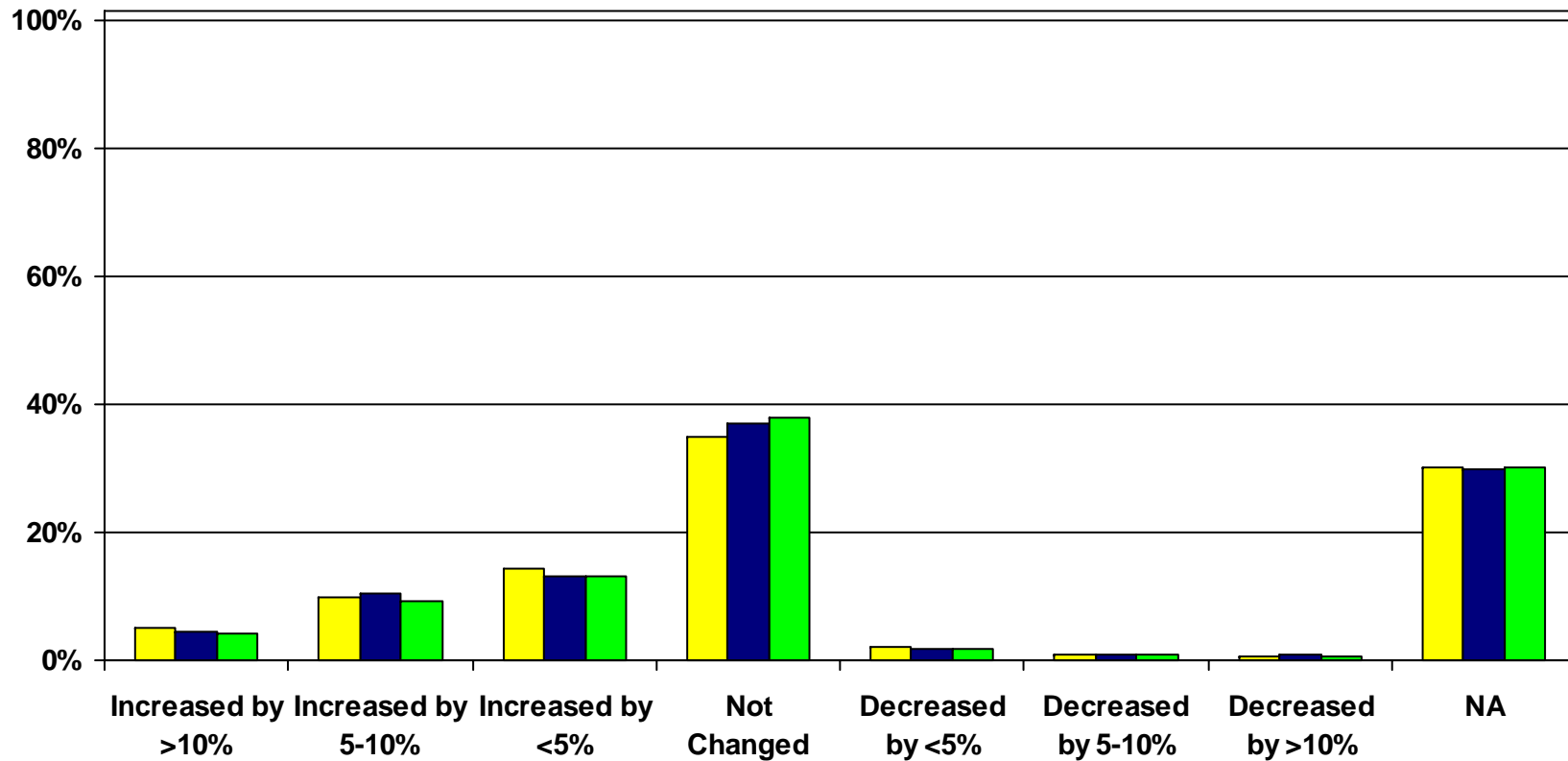
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Spending & Financing Plans Research & New Product Development

Thinking about the coming 12 months, please comment on the probable change for your organization for research and new product development budget

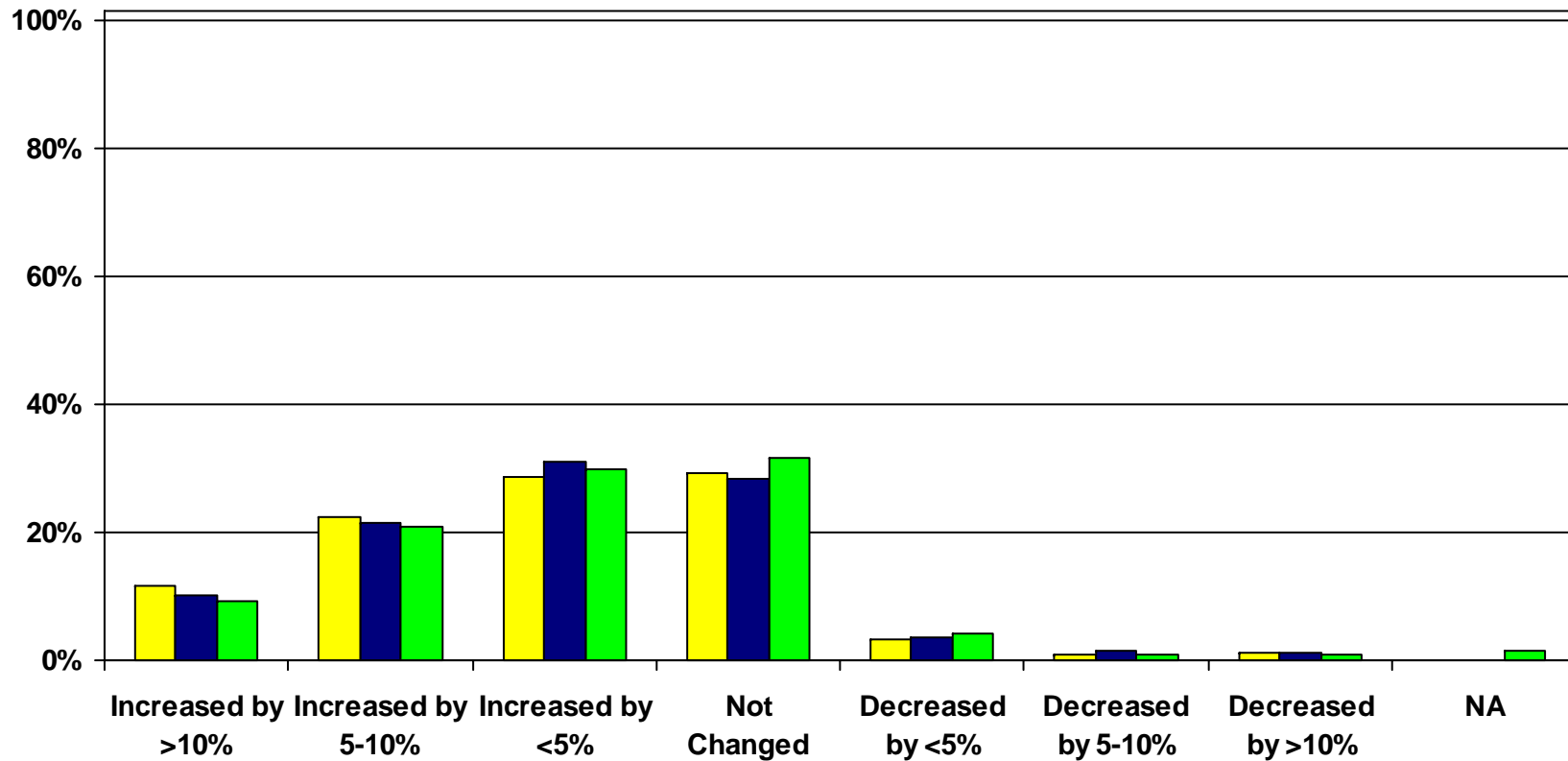
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Spending & Financing Plans Information Technology

Thinking about the coming 12 months, please comment on the probable change for your organization for information technology budget

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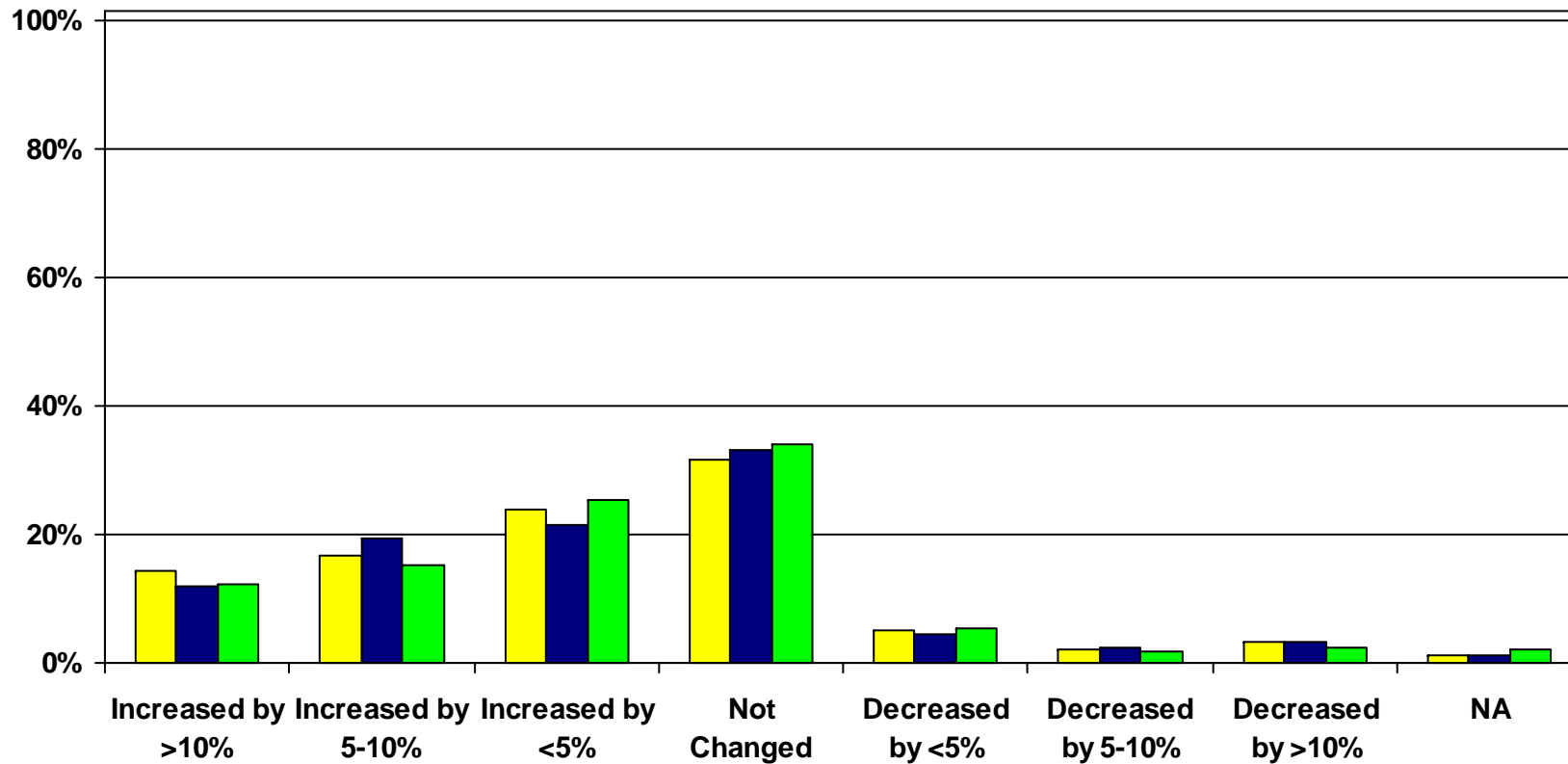


Spending & Financing Plans

Other capital investment

Thinking about the coming 12 months, please comment on the probable change for your organization for other capital investment

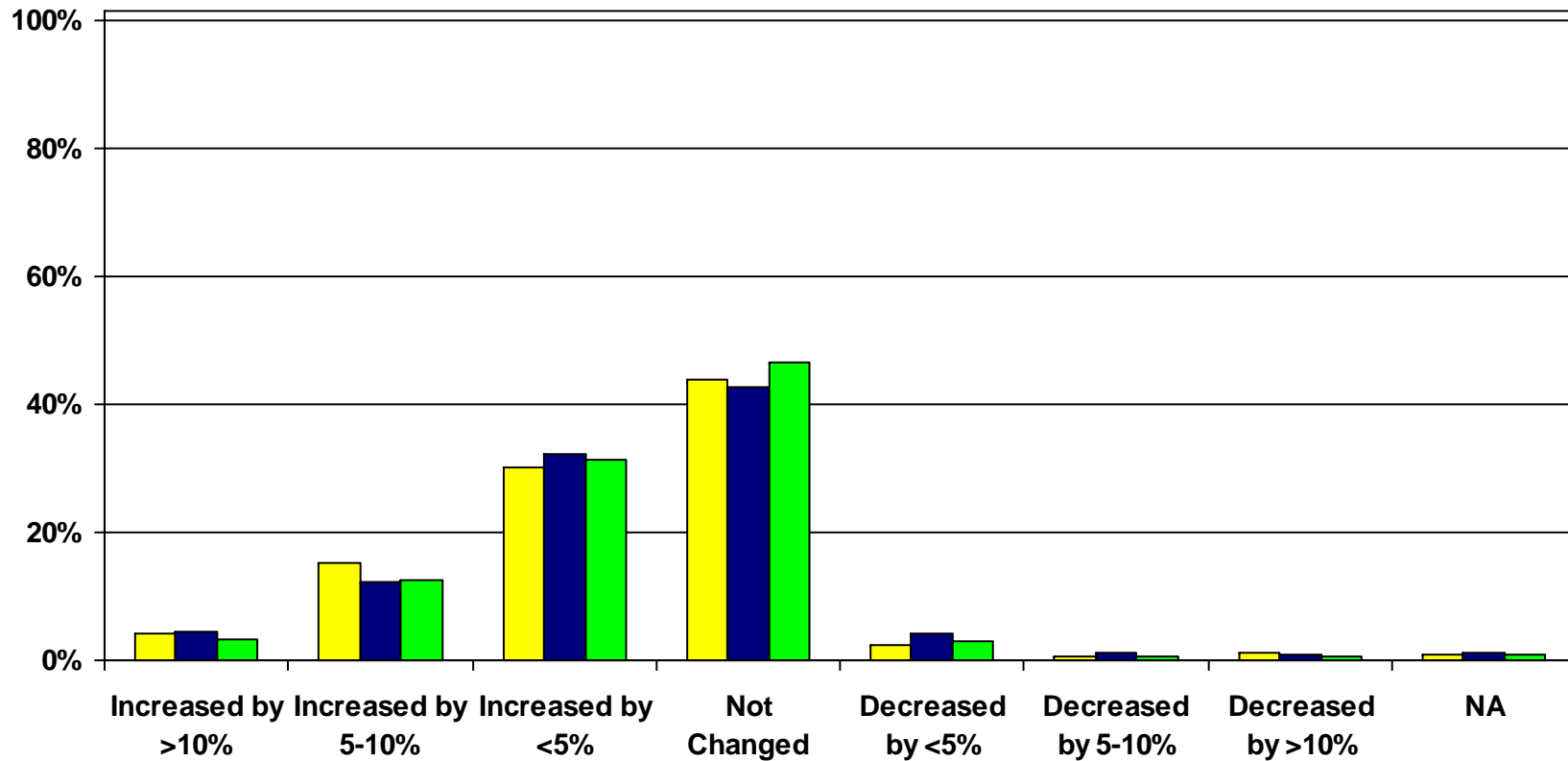
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Spending & Financing Plans Skills, Training & Staff Development

Thinking about the coming 12 months, please comment on the probable change for your organization for skills, training & staff development budget

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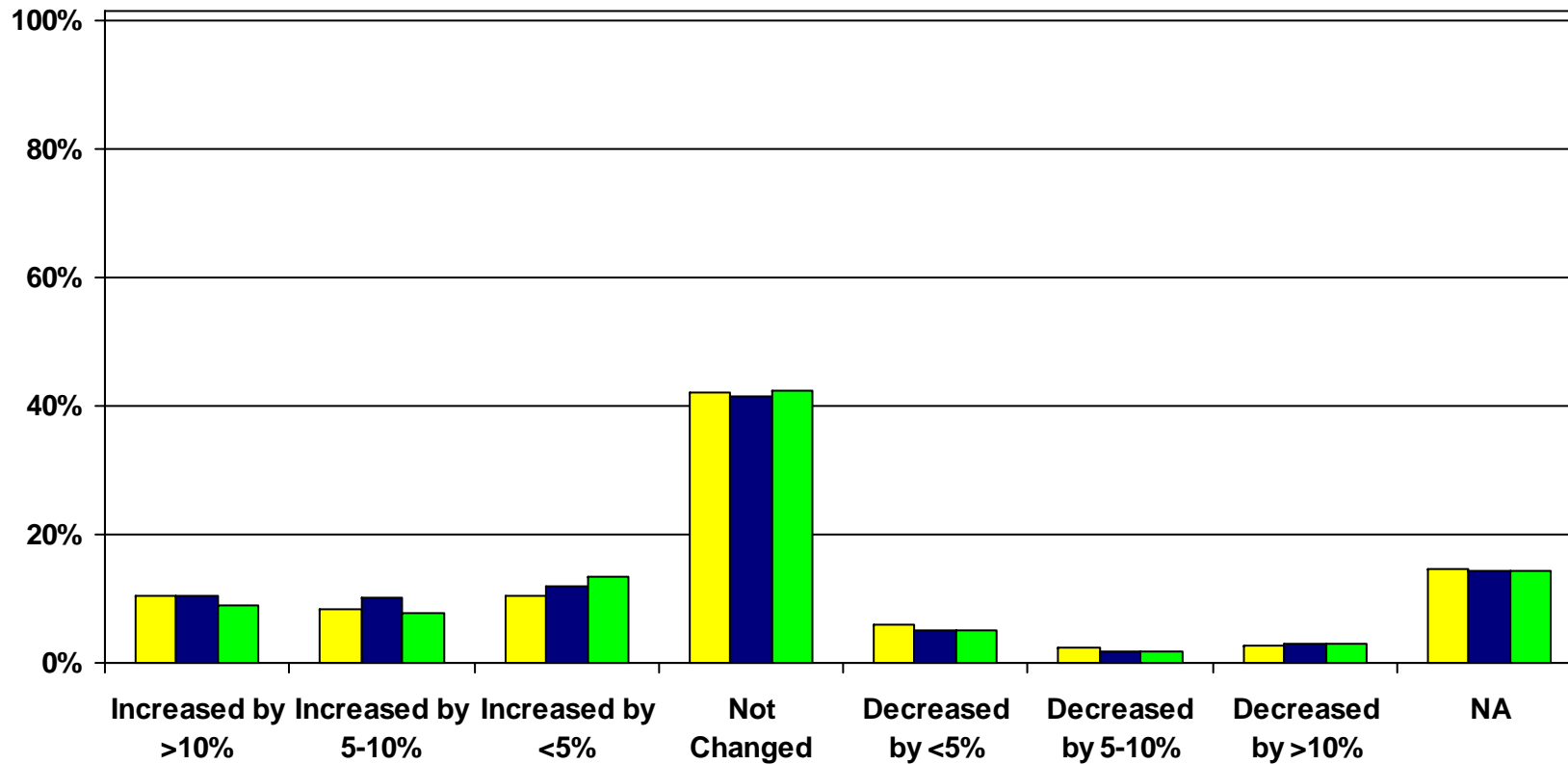


Spending & Financing Plans

Funding from Bank Borrowing

Thinking about the coming 12 months, please comment on the probable change for your organization for funding from bank borrowing

Jan 07 Apr 07 Jul 07

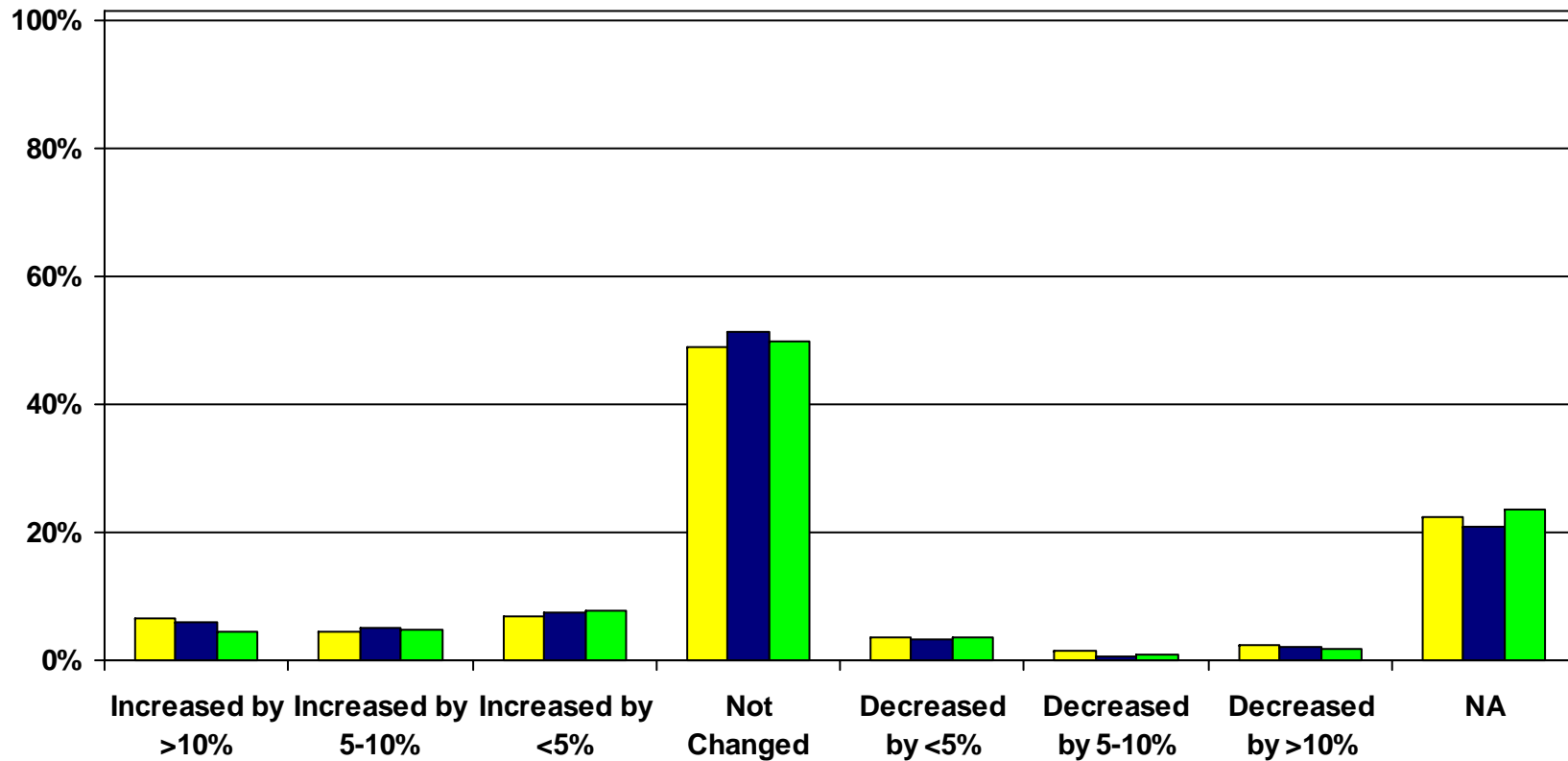


Spending & Financing Plans

Total Funding from Other Debt

Thinking about the coming 12 months, please comment on the probable change for your organization for total funding from other debt

Jan 07 Apr 07 Jul 07

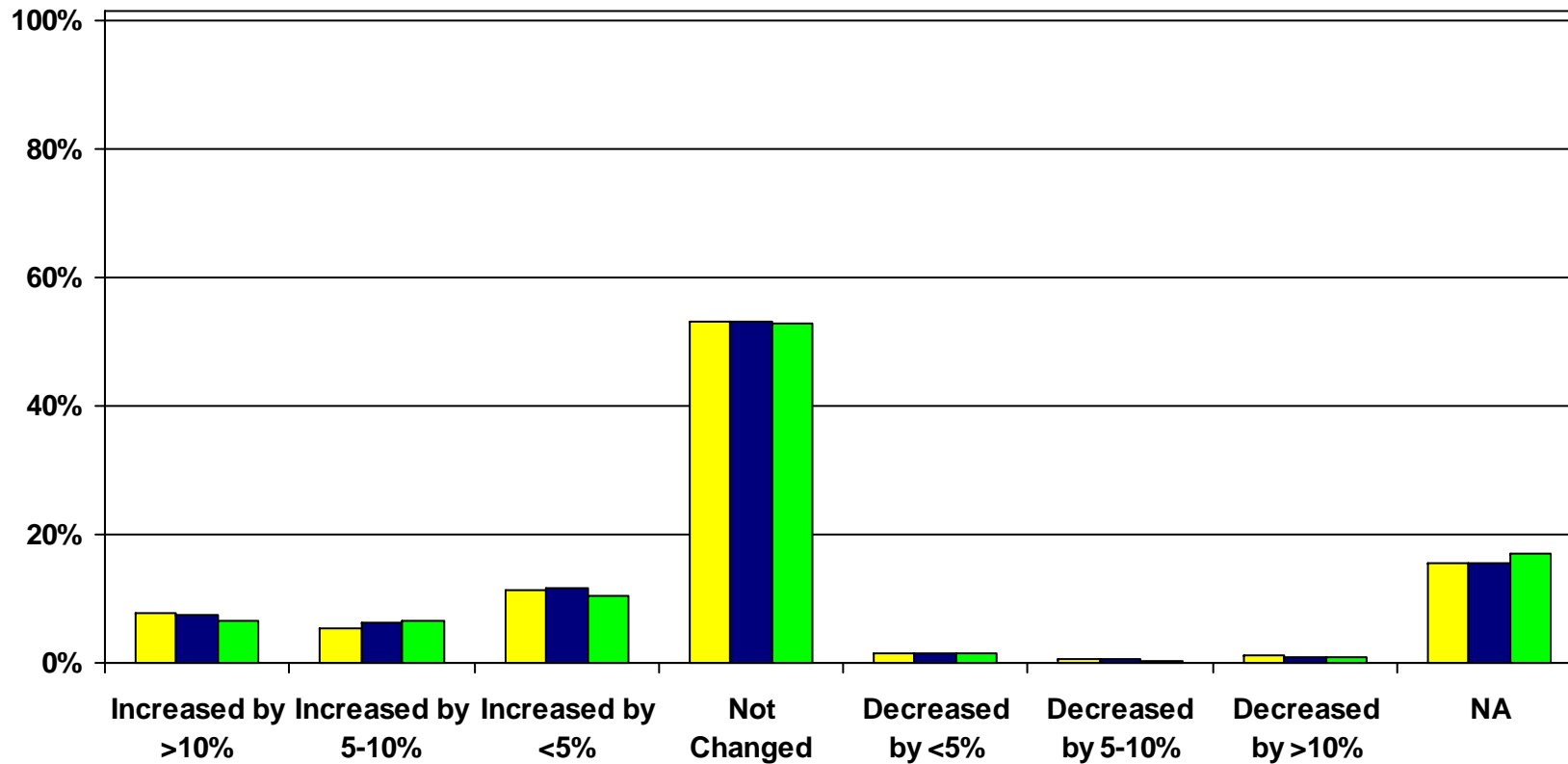


Spending & Financing Plans

Total Funding from Equity

Thinking about the coming 12 months, please comment on the probable change for your organization for total funding from equity

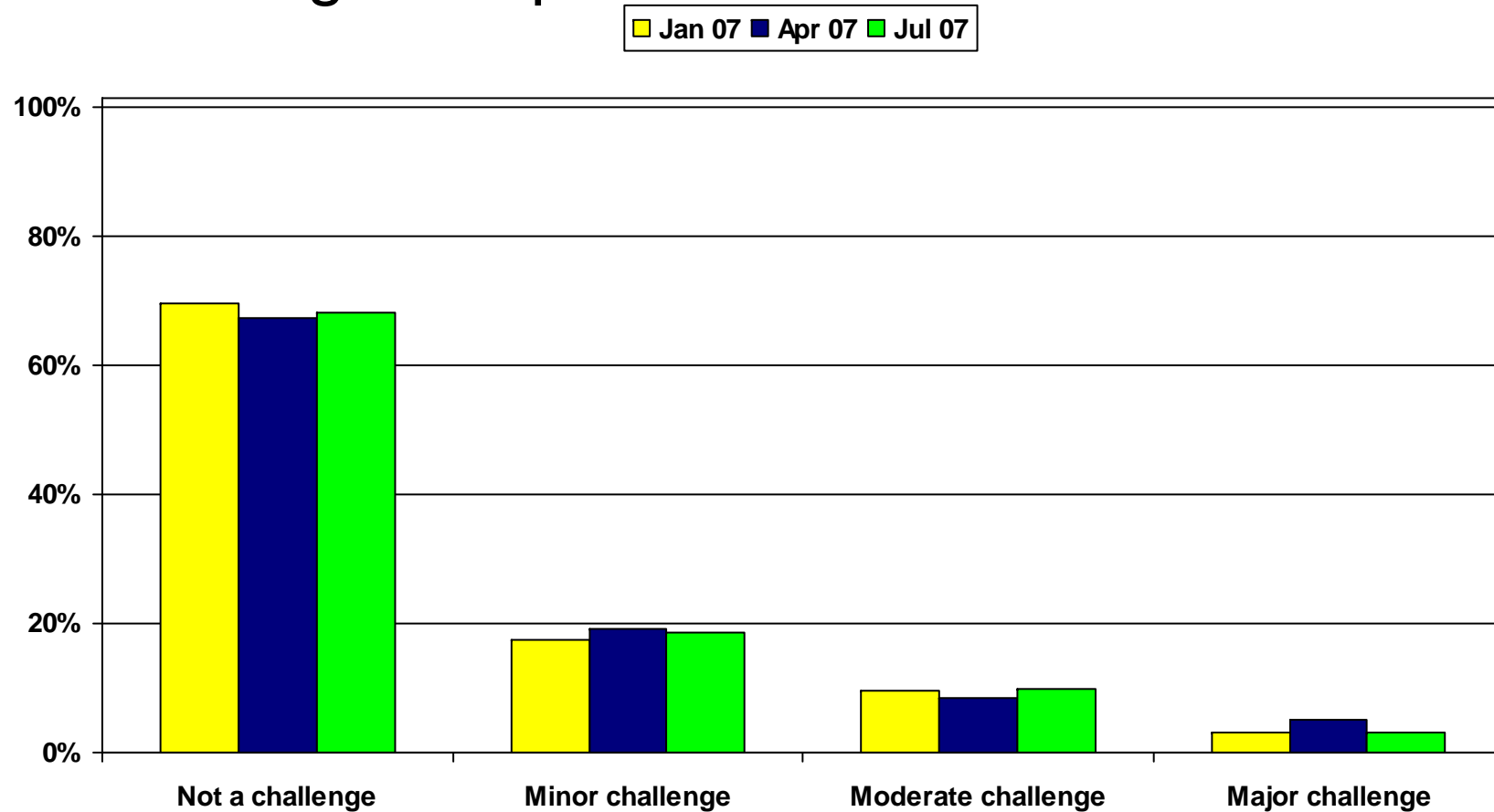
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Challenges

Other foreign competition

Please indicate the extent to which the following is a challenge to your organization: Other foreign competition





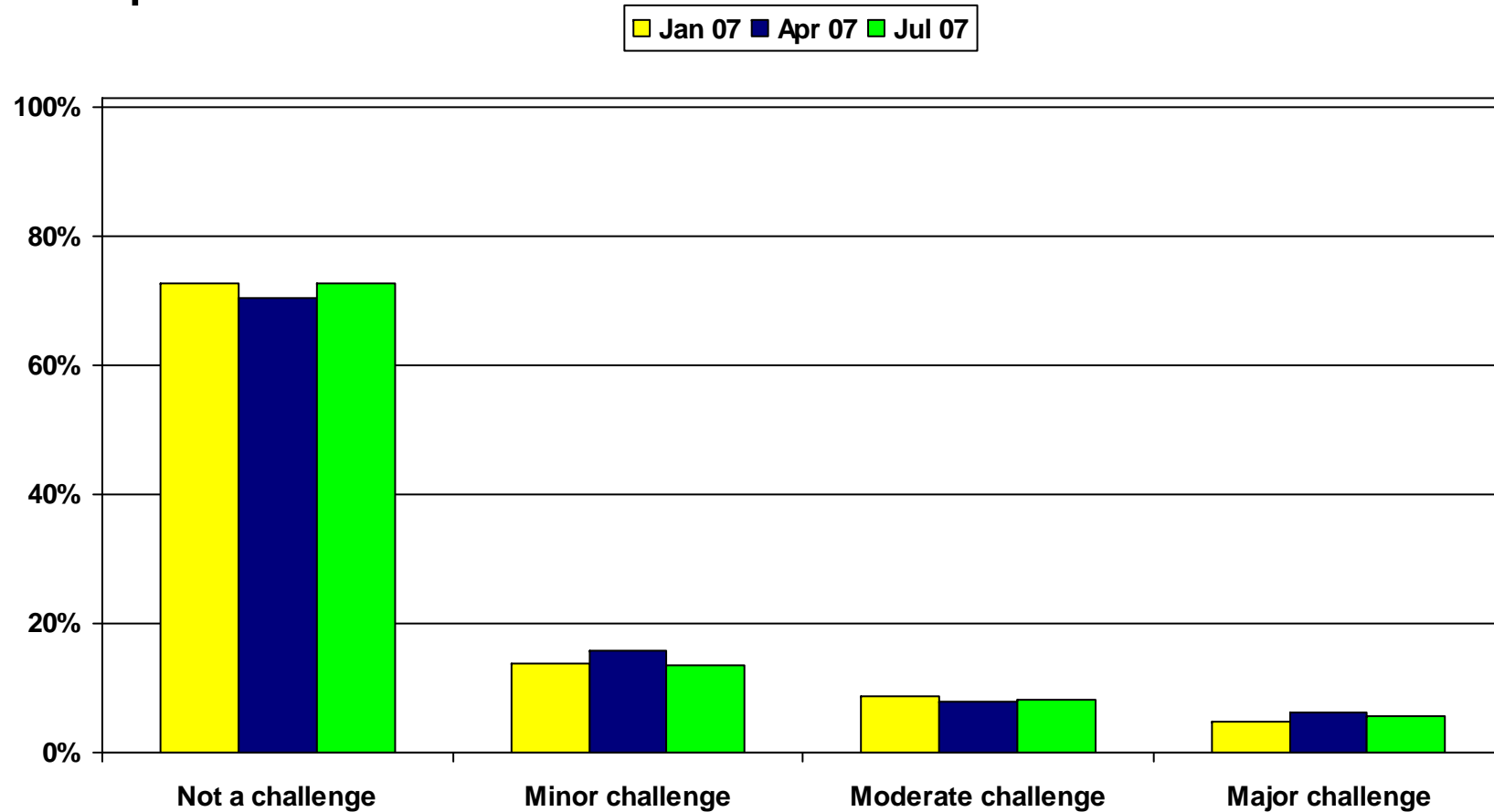
Challenges for Organizations for next 12 months

- Overall employee and benefit costs remain the top challenge with 95% of organizations seeing it as a challenge
 - 26% see it as a major challenge; 45% as a moderate challenge and 24% as a minor challenge
- Again this quarter staff related issues – cost, availability and retention accounted for 4 of the top 5 challenges organizations faced with regulatory challenges rounding out the top 5
 - Finance & Insurance and Healthcare respondents were more likely to see regulatory issues as a challenge than other respondents
- US Trade policy, international instability and foreign competition whether from China or elsewhere continue not seen as a challenges by most respondents.
 - The manufacturing industry was notably different as 67% of respondents saw competition from China as a challenge and 70% saw other foreign competition as a challenge
 - Despite much talk of the growing professional skills in India and China respondents from Professional, Scientific and Technical Services industries generally did not see foreign competition as a challenge

Challenges

Competition from China

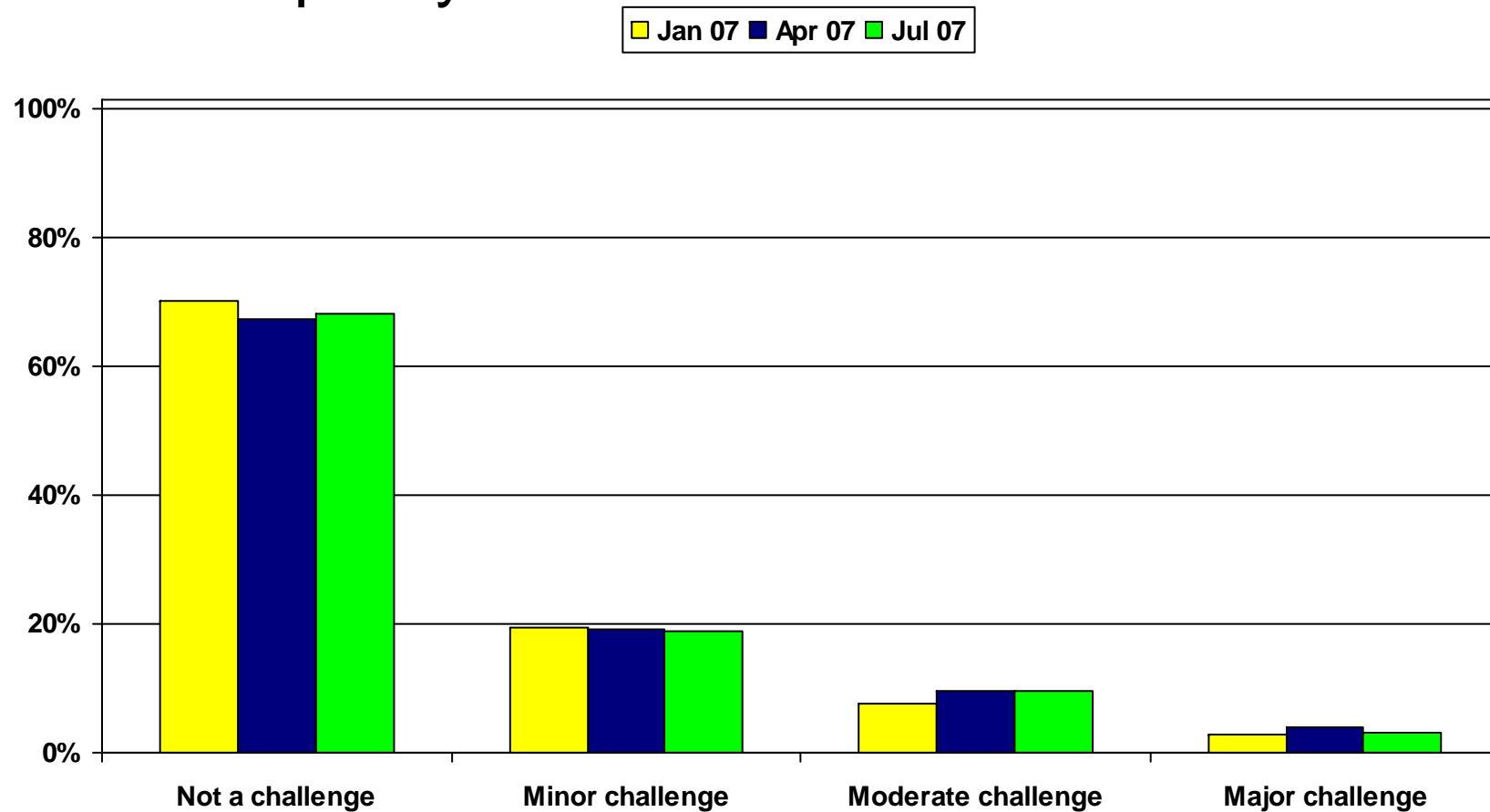
Please indicate the extent to which the following is a challenge to your organization: Competition from China



Challenges

US Trade policy

Please indicate the extent to which the following is a challenge to your organization: US Trade policy

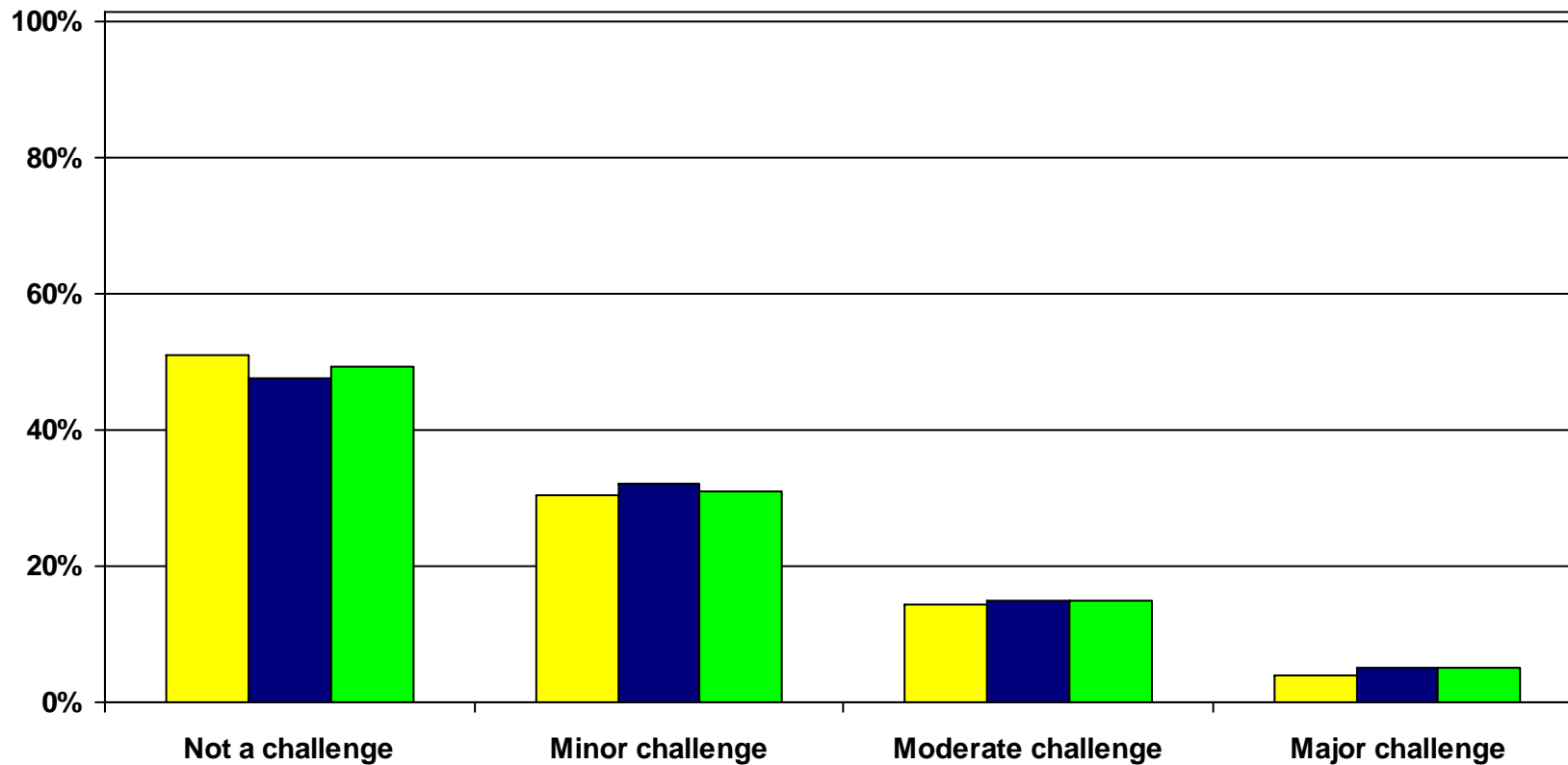


Challenges

International instability

Please indicate the extent to which the following is a challenge to your organization: International instability

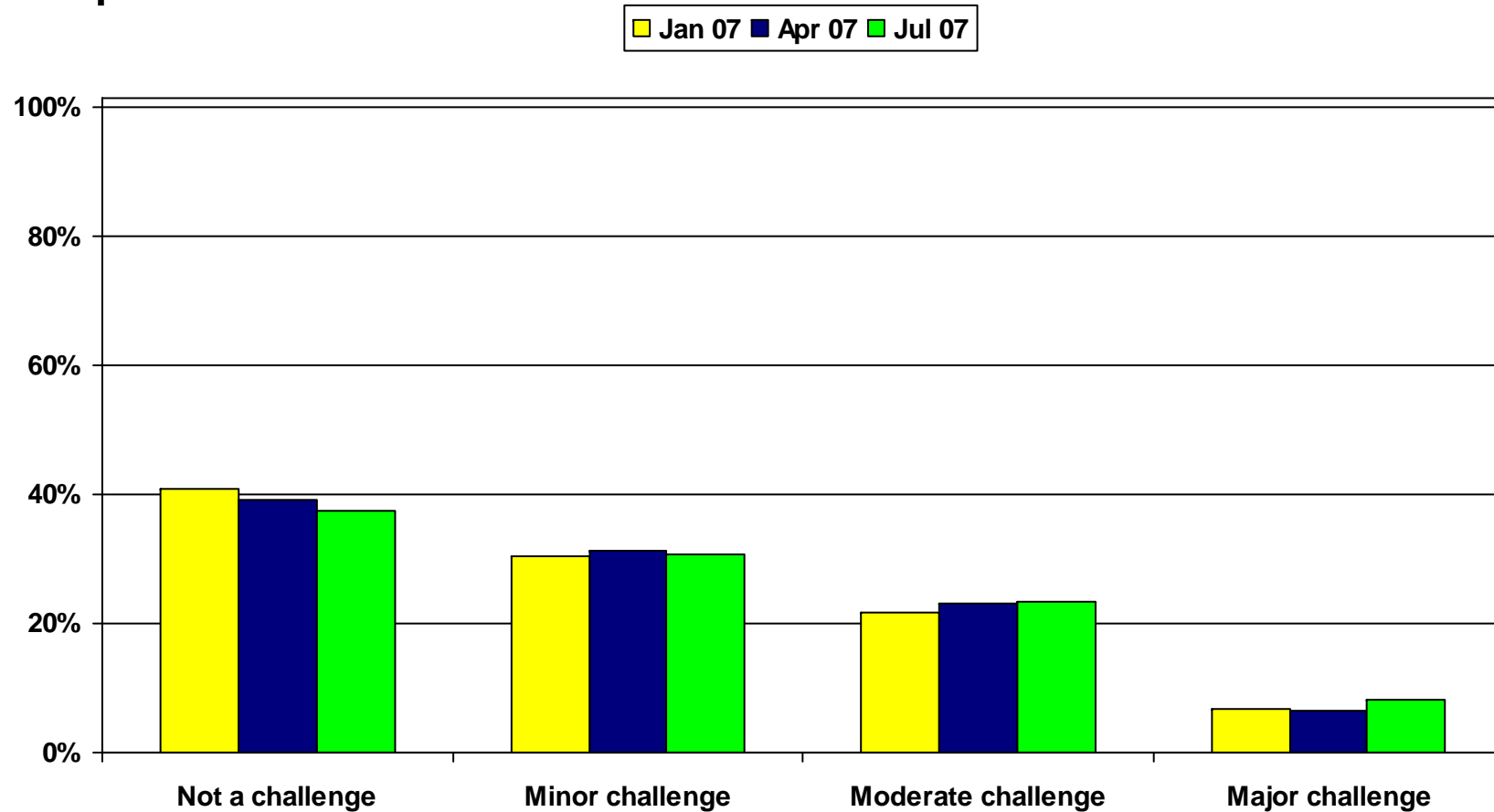
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Challenges

Corporate tax burden

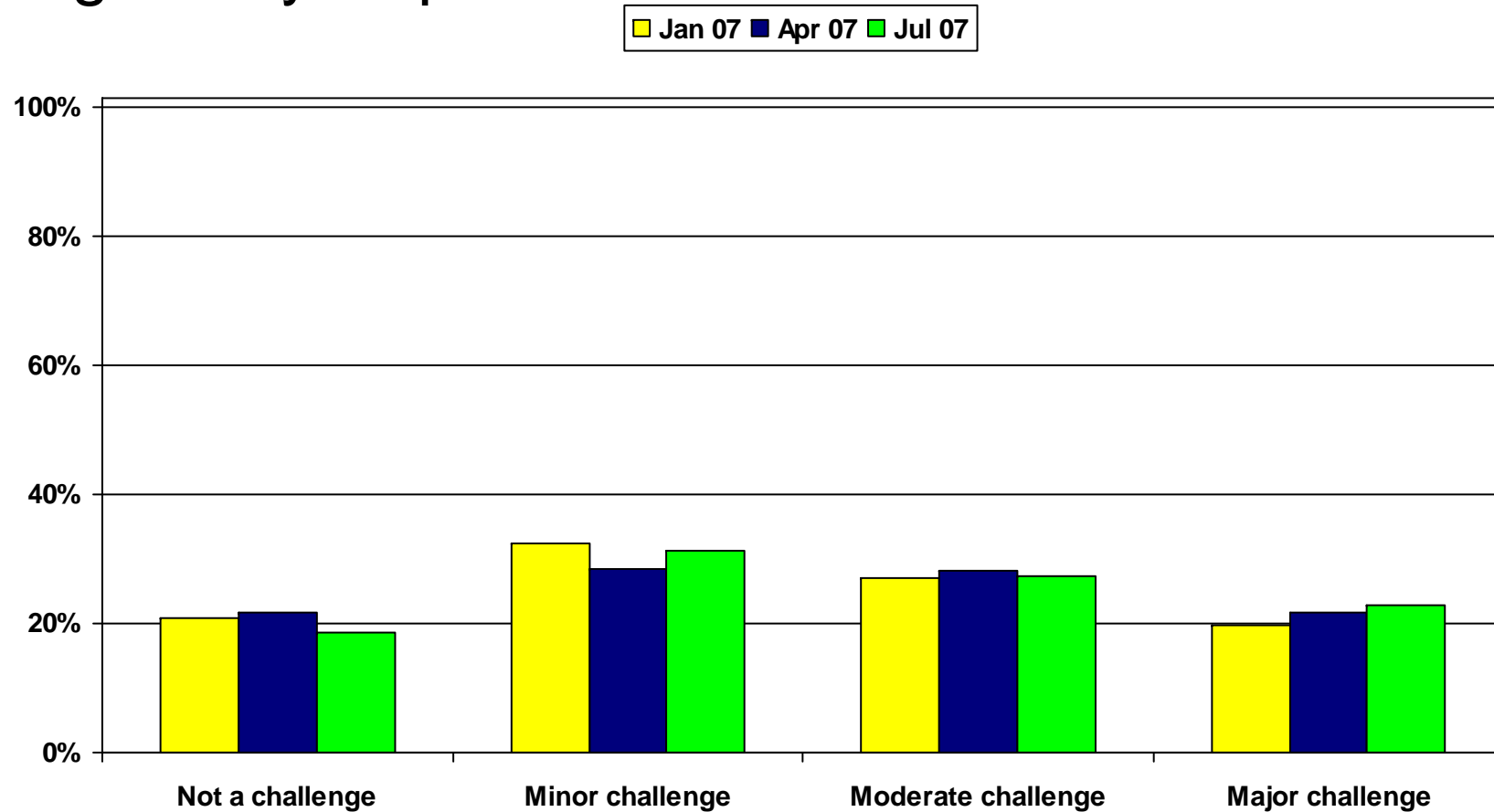
Please indicate the extent to which the following is a challenge to your organization: Corporate tax burden



Challenges

Regulatory requirements

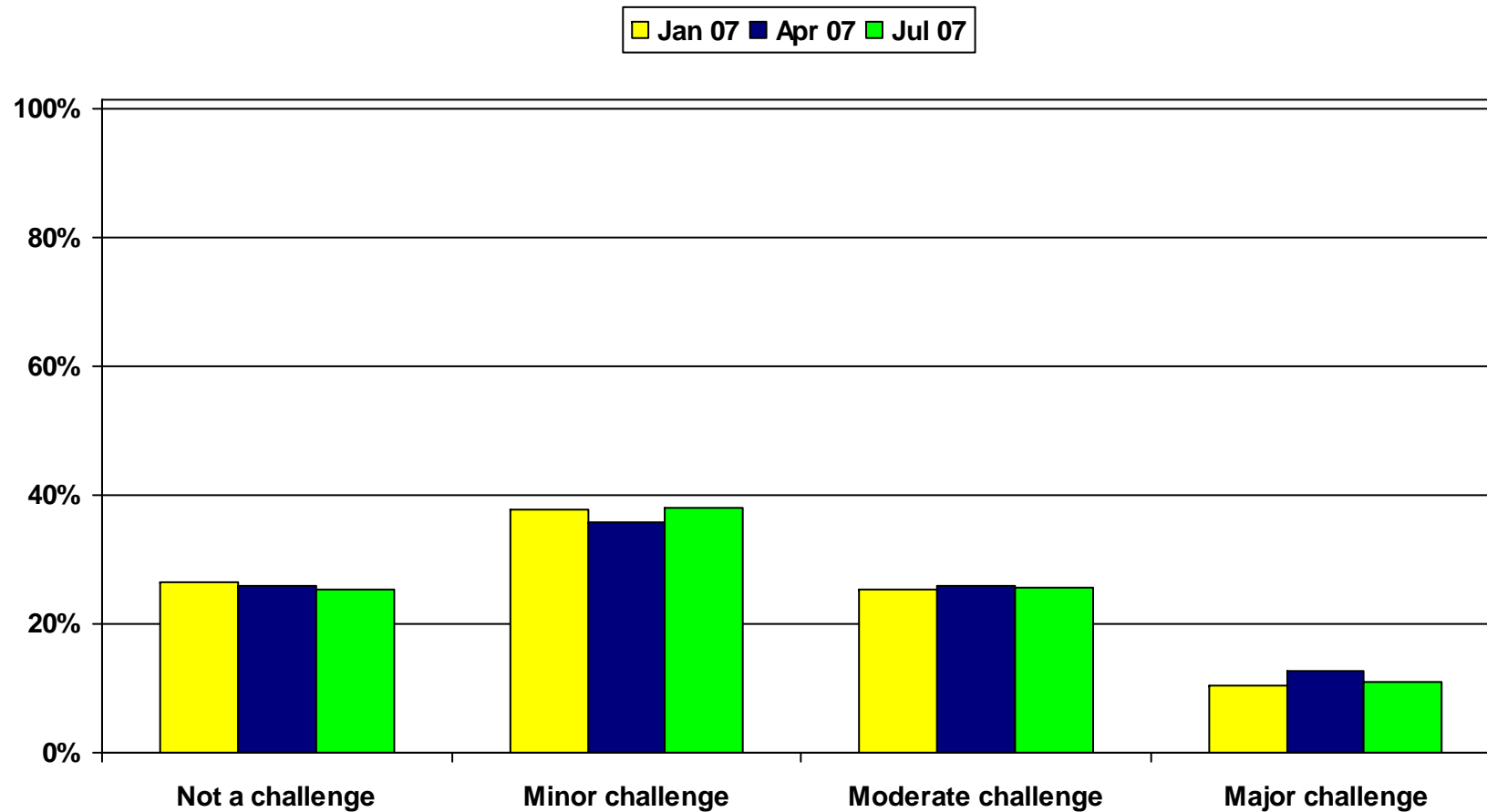
Please indicate the extent to which the following is a challenge to your organization: Regulatory Requirements



Challenges

Staff turnover/retention

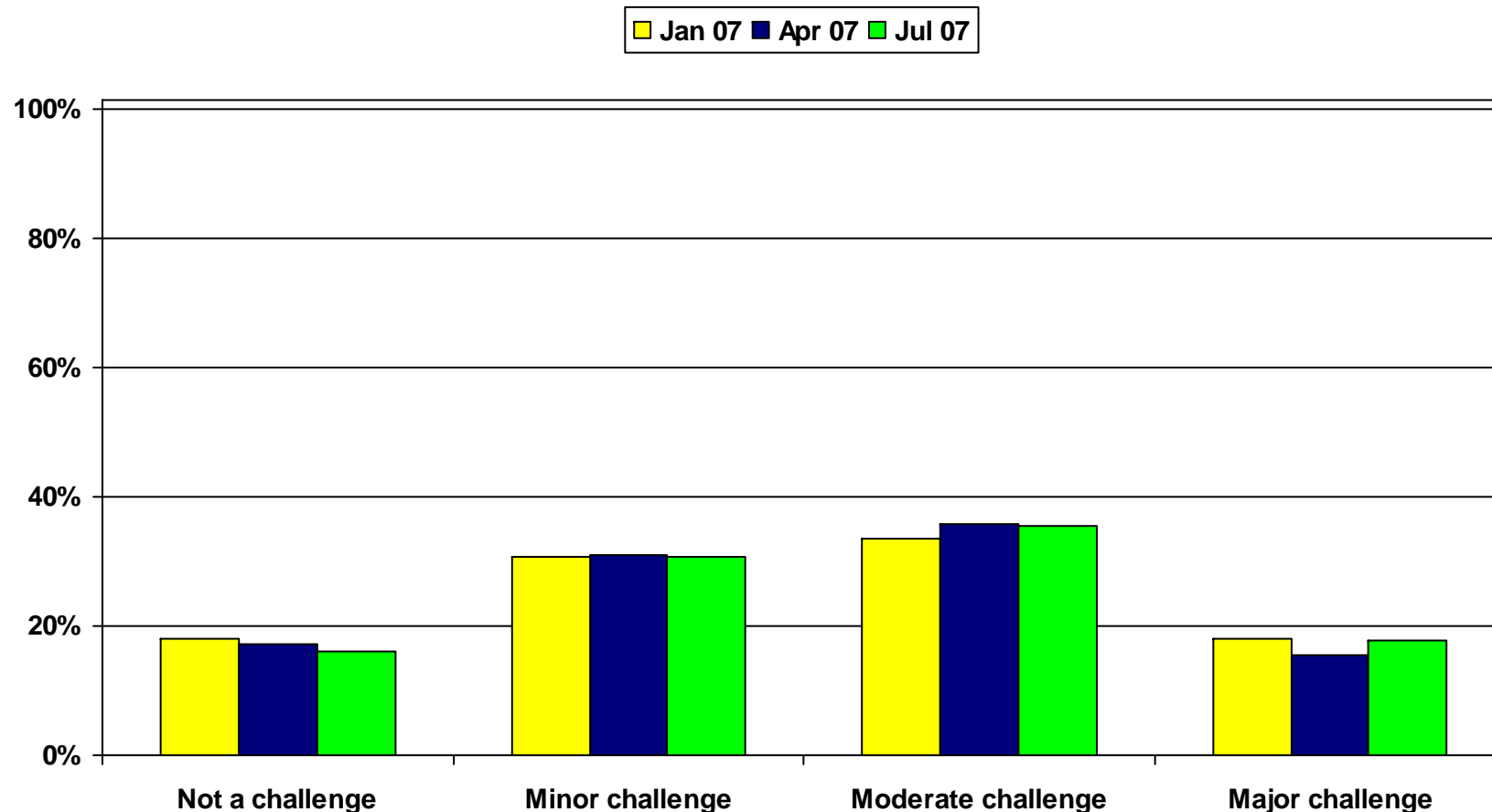
Please indicate the extent to which the following is a challenge to your organization: Staff turnover/retention



Challenges

Availability of other professional & technical skills

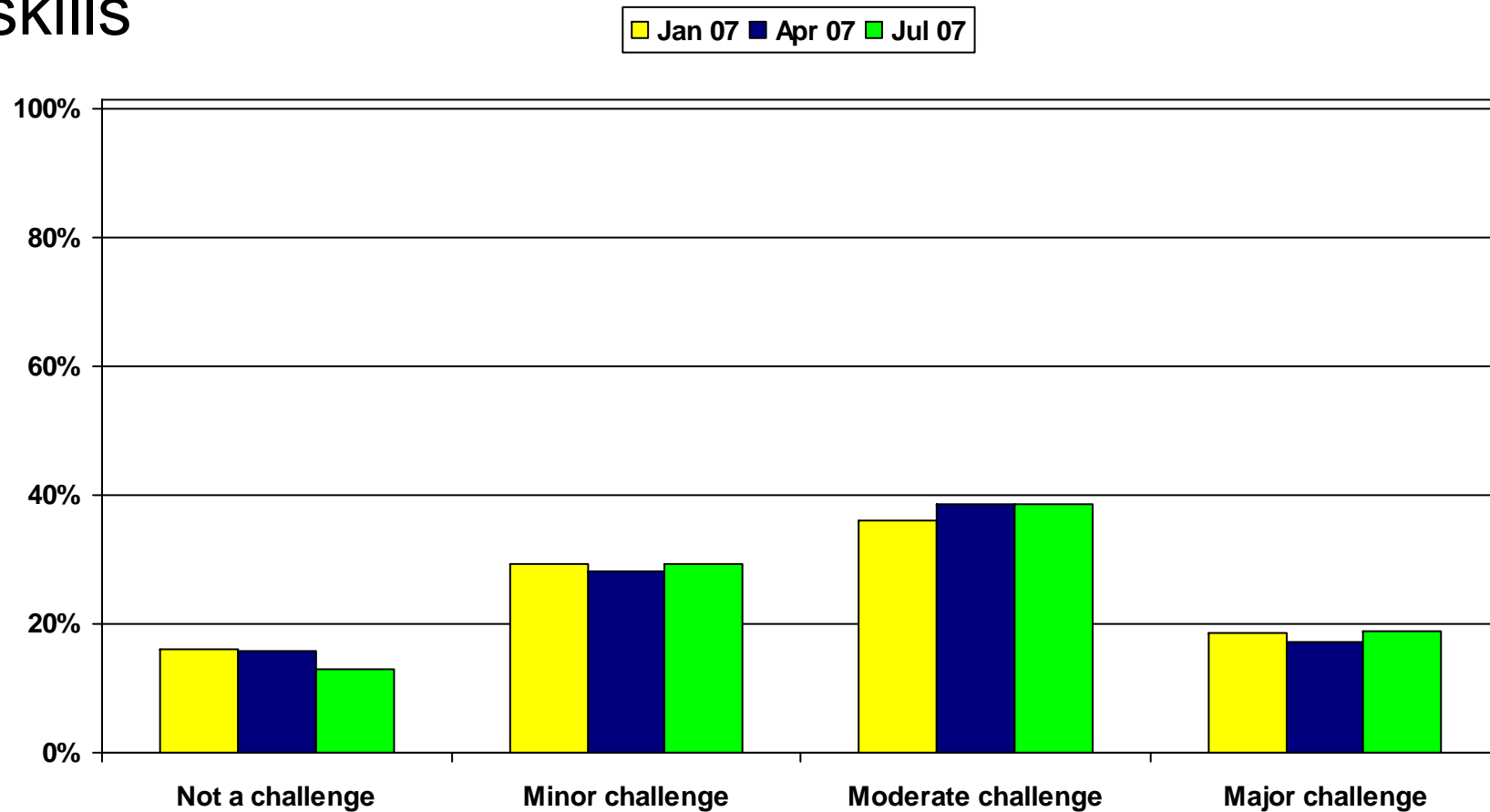
Please indicate the extent to which the following is a challenge to your organization: Availability of other professional and technical skills



Challenges

Availability of management skills

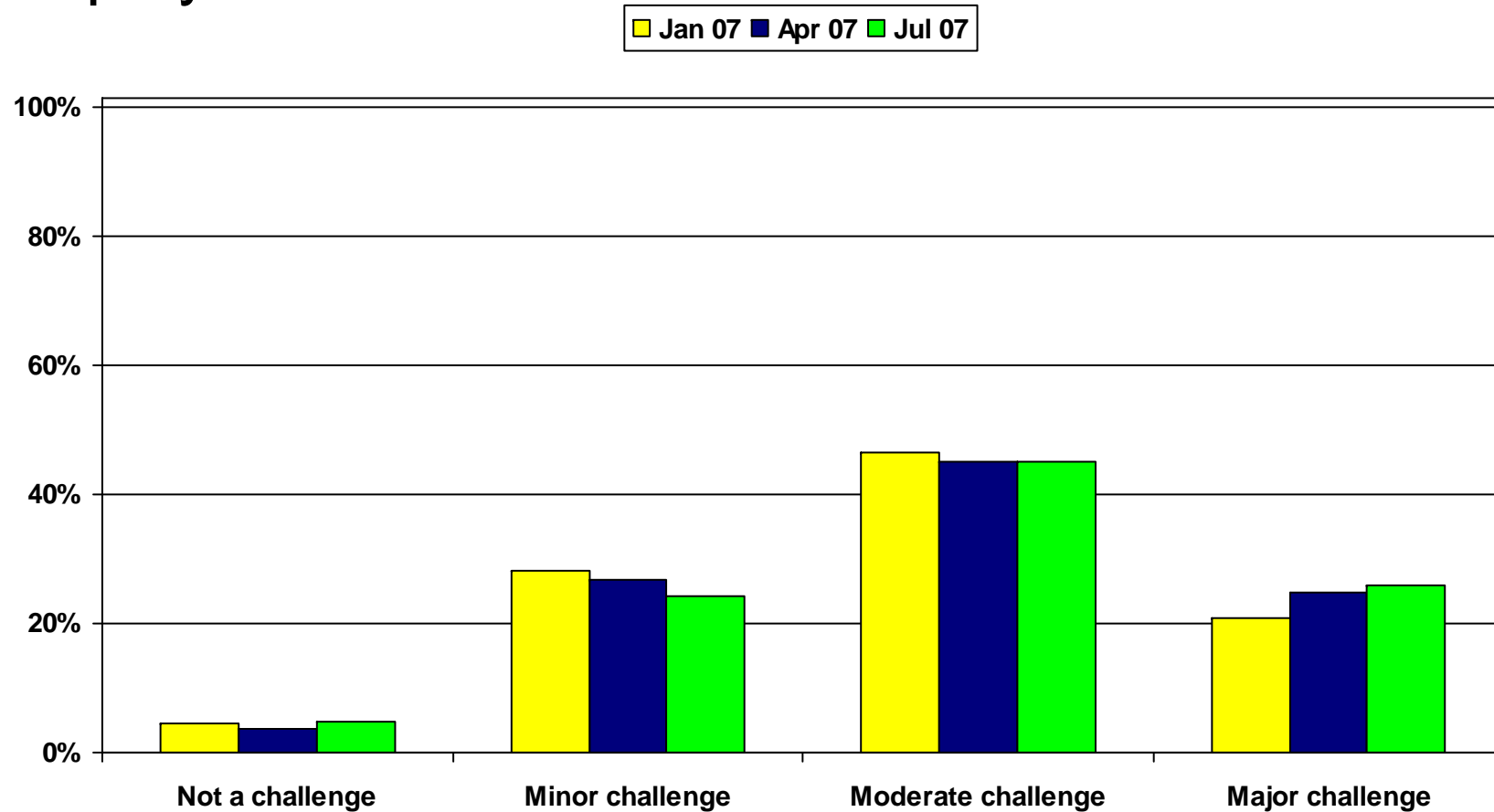
Please indicate the extent to which the following is a challenge to your organization: Availability of management skills



Challenges

Employee and benefit costs

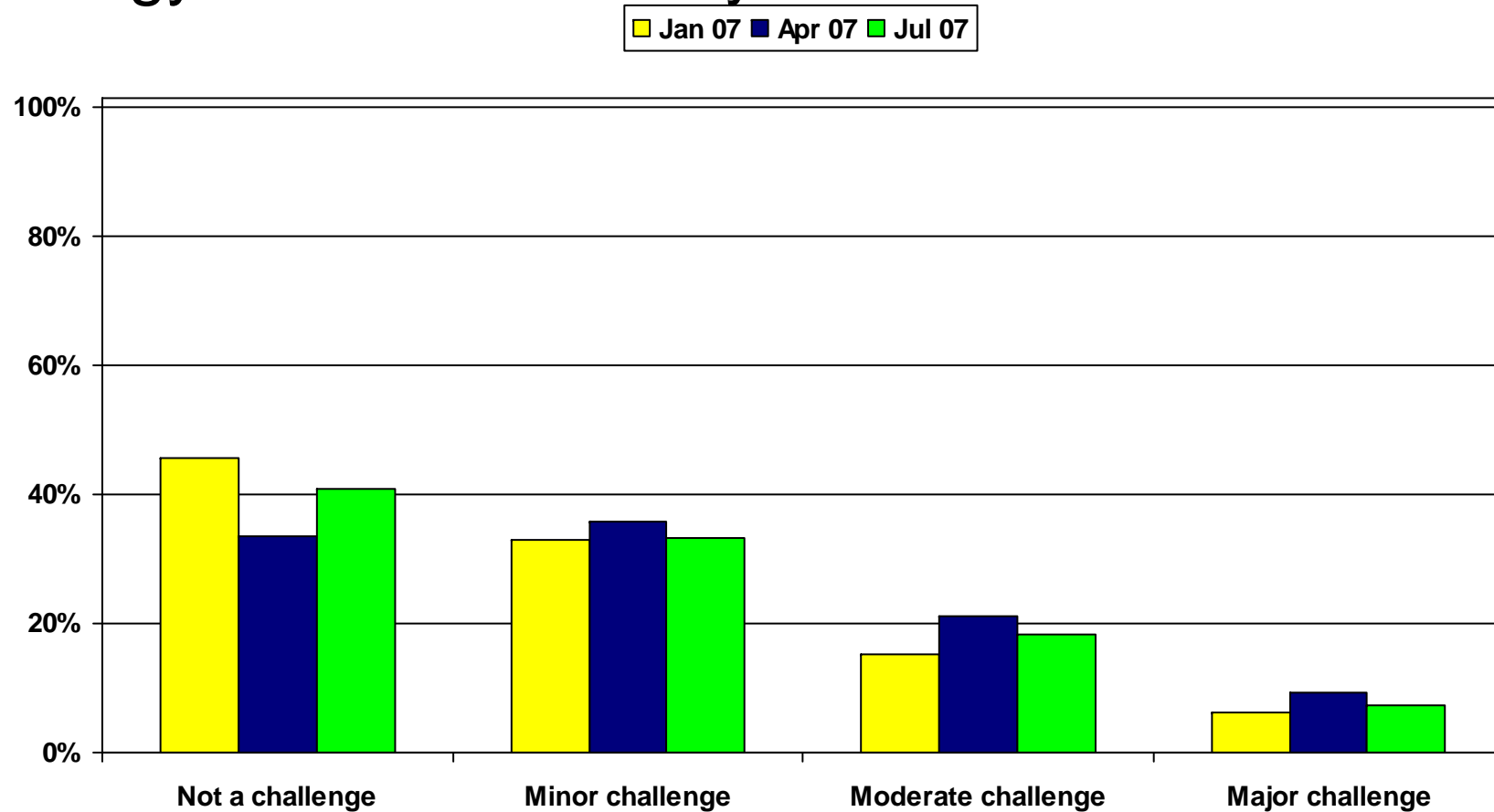
Please indicate the extent to which the following is a challenge to your organization: Employee and benefit costs



Challenges

Energy cost or availability

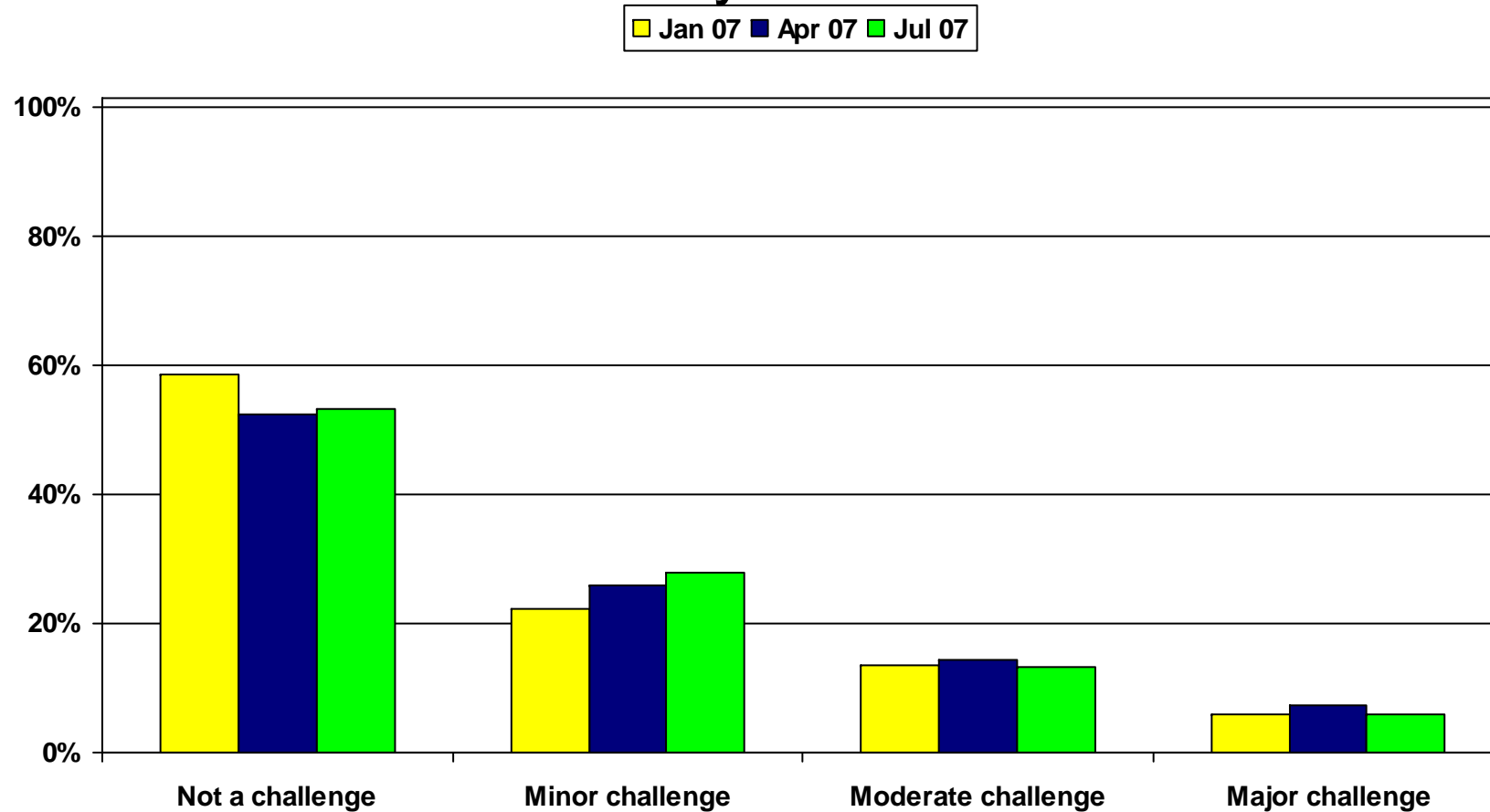
Please indicate the extent to which the following is a challenge to your organization: Energy cost or availability



Challenges

Credit Cost or Availability

Please indicate the extent to which the following is a challenge to your organization: Credit cost or availability

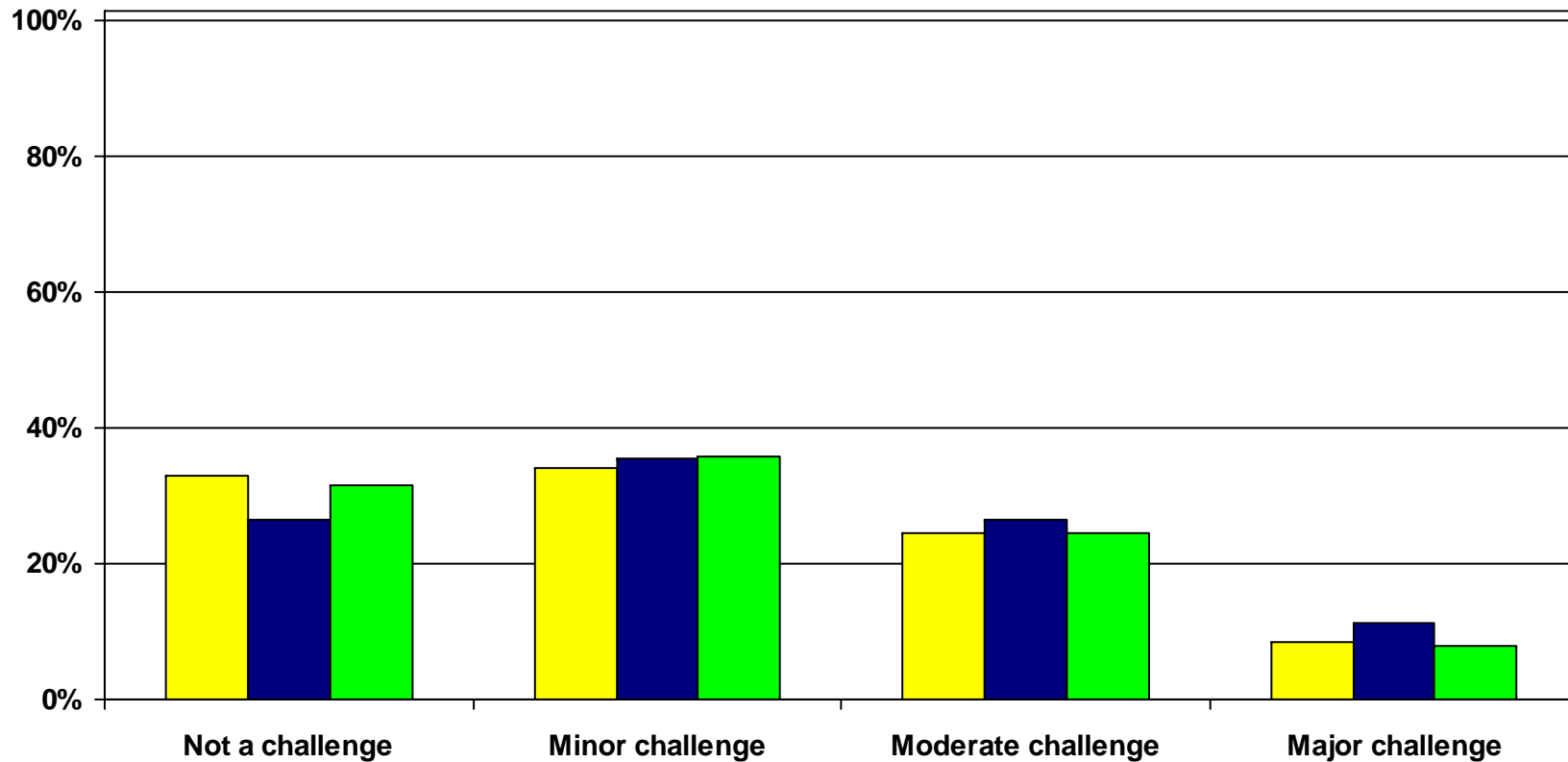


Challenges

Materials, supplies or equipment costs

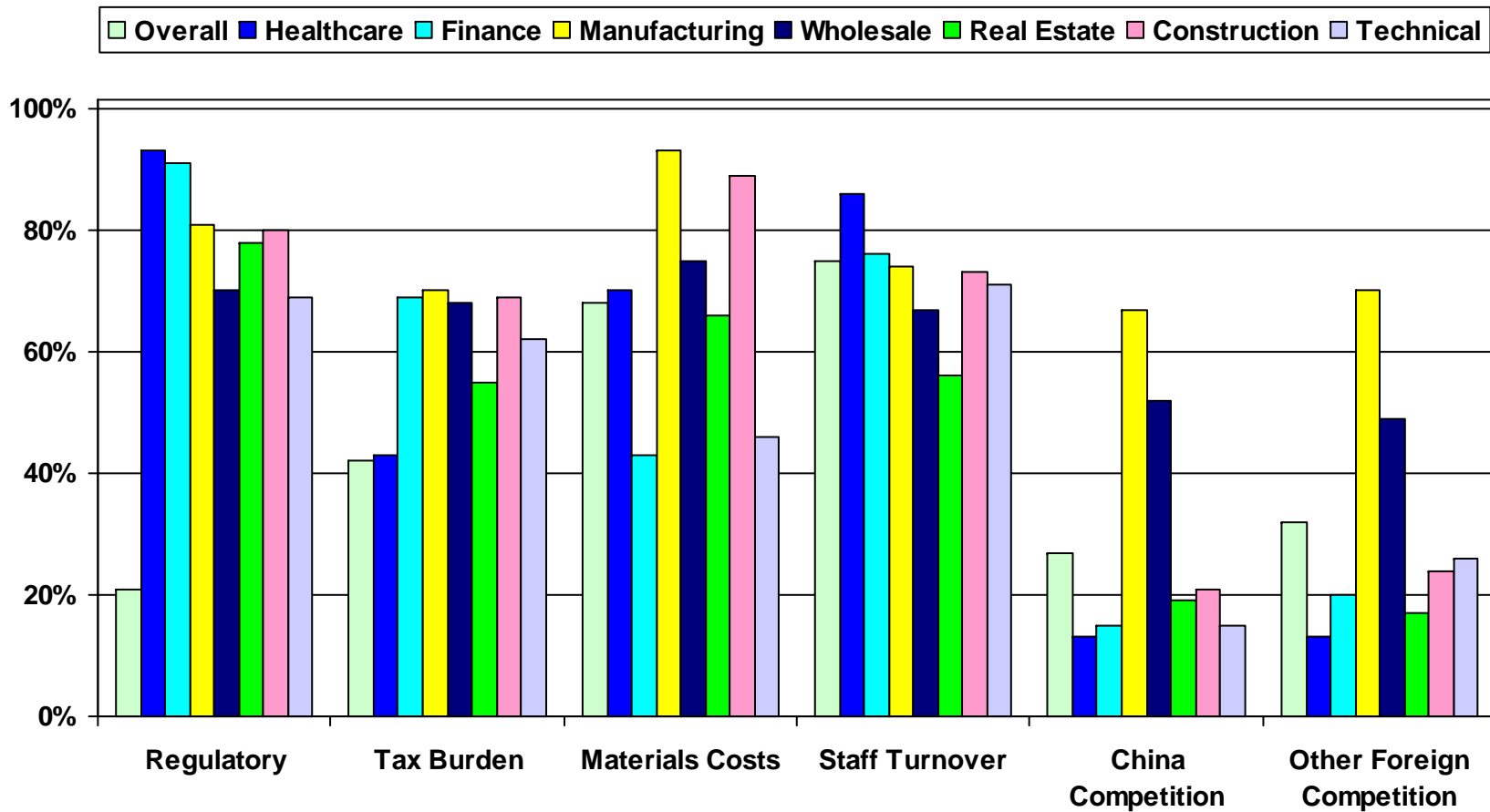
Please indicate the extent to which the following is a challenge to your organization: Materials, supplies or equipment costs

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Challenges -- Industry Variations

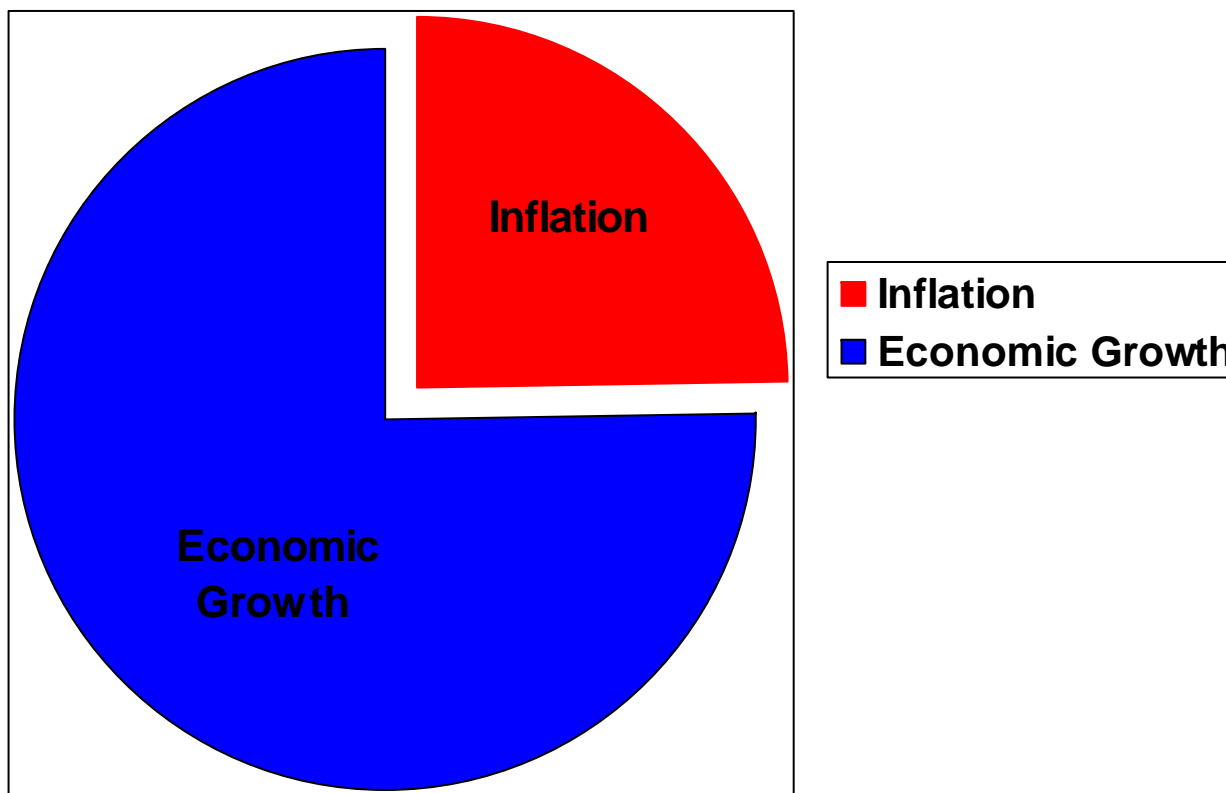
Please indicate the extent to which the following is a challenge to your organization:



Concerns about Interest Rates

With respect to monetary policy and weighing between the two factors listed below, what are you more concerned about?

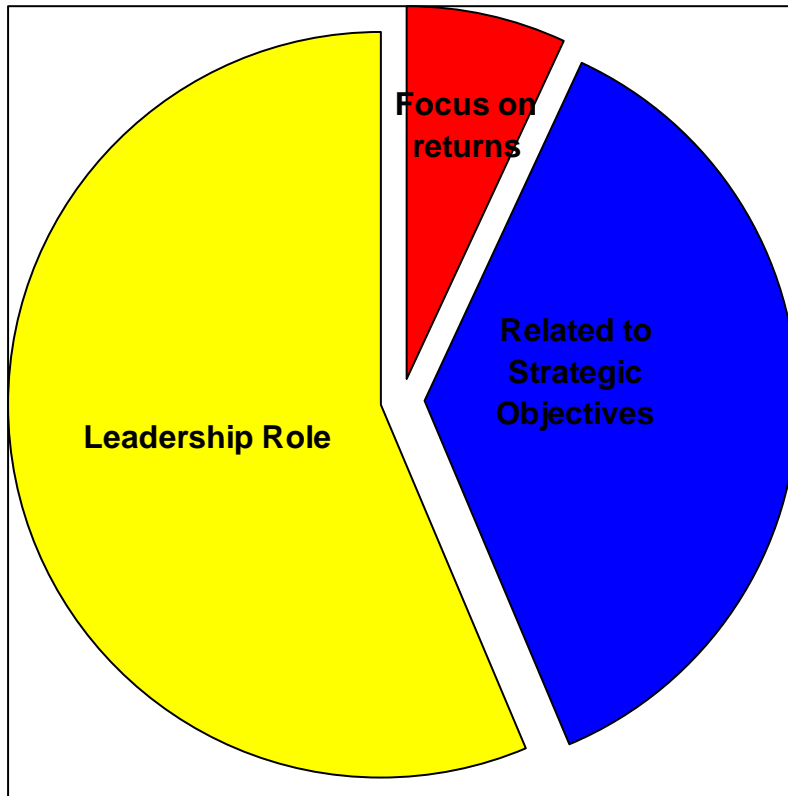
- The impact of changes in short-term interest rates on inflation
- The impact of changes in short-term interest rates on economic growth



Role of Businesses & their Executives Should Play in Social/Public Policy Issues

Which statement best describes your view of the role that businesses and their executives should play in public/social policy issues such as healthcare, social security and the environment:

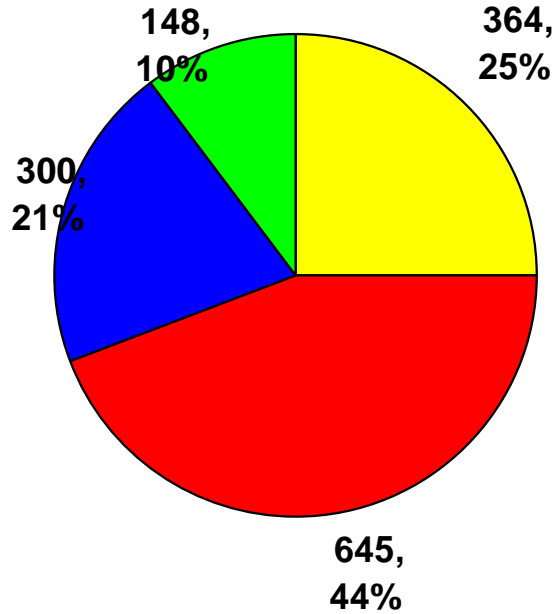
- Companies and their executives should focus solely on providing returns to their shareholders
- Companies and their executives should be involved in public policy issues only to the extent that they relate to the strategic objectives of their company.
- Companies and their executives should take a leadership role in helping shape public policy.



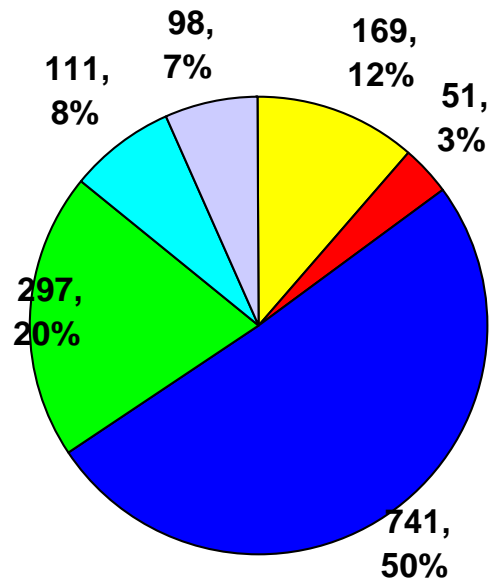
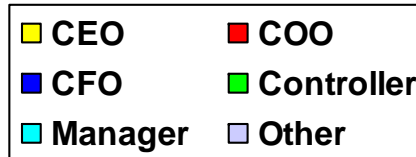
- Focus solely on returns
- Involved only when related to strategic objectives
- Take a leadership role

Survey Respondents

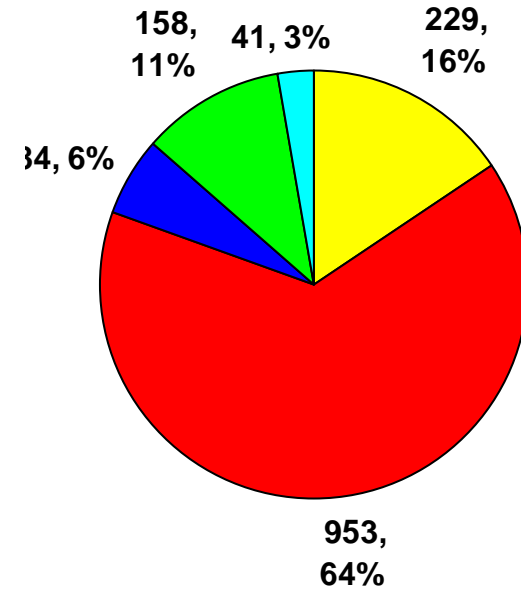
Size of Organization



Position



Type of Organization



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Project Manager
npotts@aicpa.org**

