

AICPA  
Business and Industry  
Economic Outlook Survey  
1Q 2008

*Detailed Survey Results*

## Survey Background

- Conducted between April 22, 2008 and May 5, 2008
- Quarterly survey
- CPA decision makers (primarily CFOs, CEOs & Controllers)
- AICPA members in Business & Industry only
- 1559 total responses; 1426 qualified responses
- Partnership of AICPA Business, Industry & Government Team and UNC Kenan-Flagler Business School

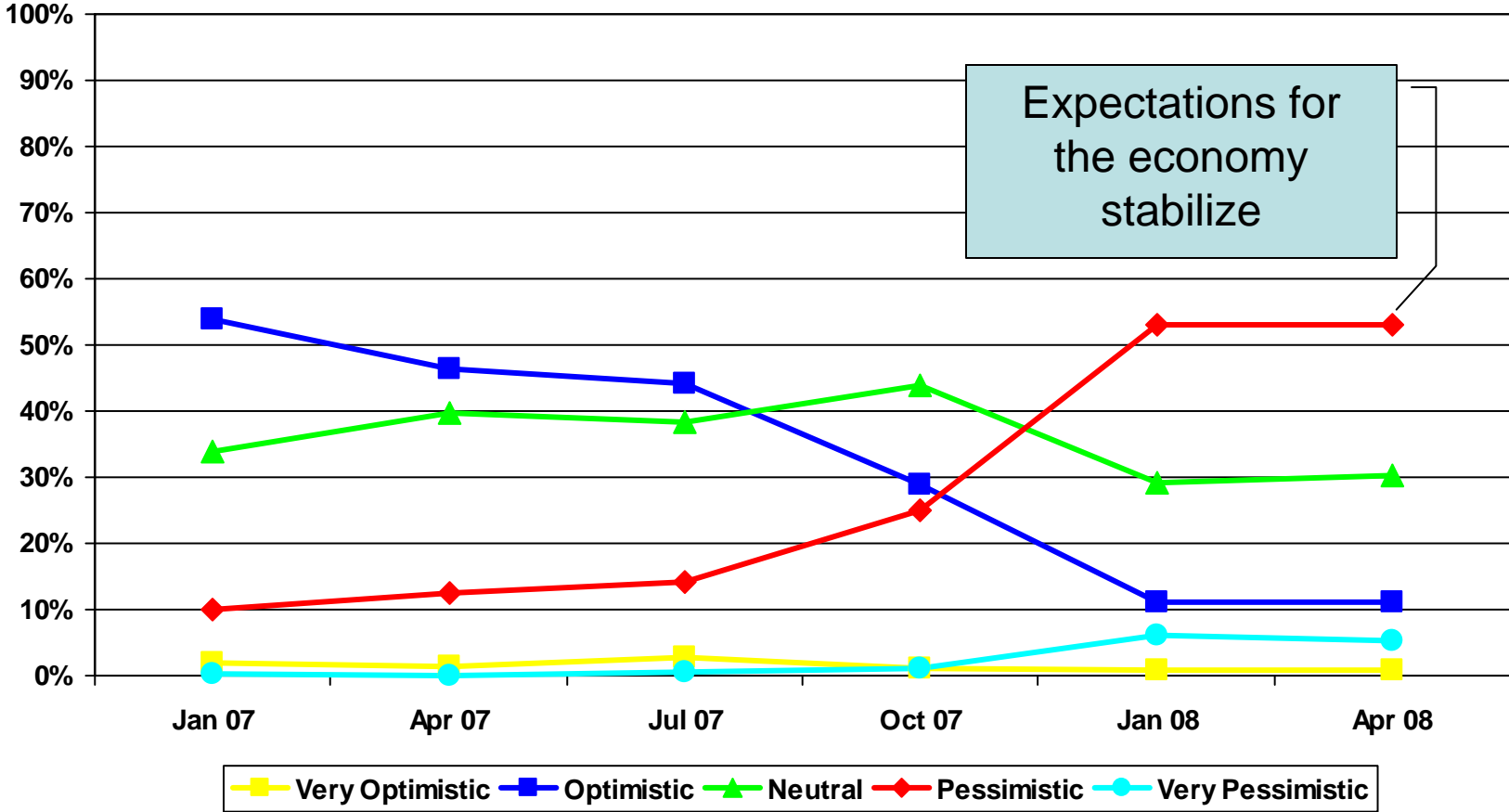
## US Economy

- **Optimism for the US economy stabilized**
  - Remains at a very low level – 12%
  - Pessimists continue to outnumber optimists by an almost 5 to 1 margin
- **Different industries view the US economy differently**
  - Optimism about the US economy rebounded slightly in both the construction and the manufacturing industries
  - Optimism in the technology industry plummeted
- **The top reasons cited for less confidence** in the economy were fuel prices, rising costs and continued credit issues

# AICPA/UNC Kenan-Flagler Economic Outlook Survey

## Economic Outlook for the US

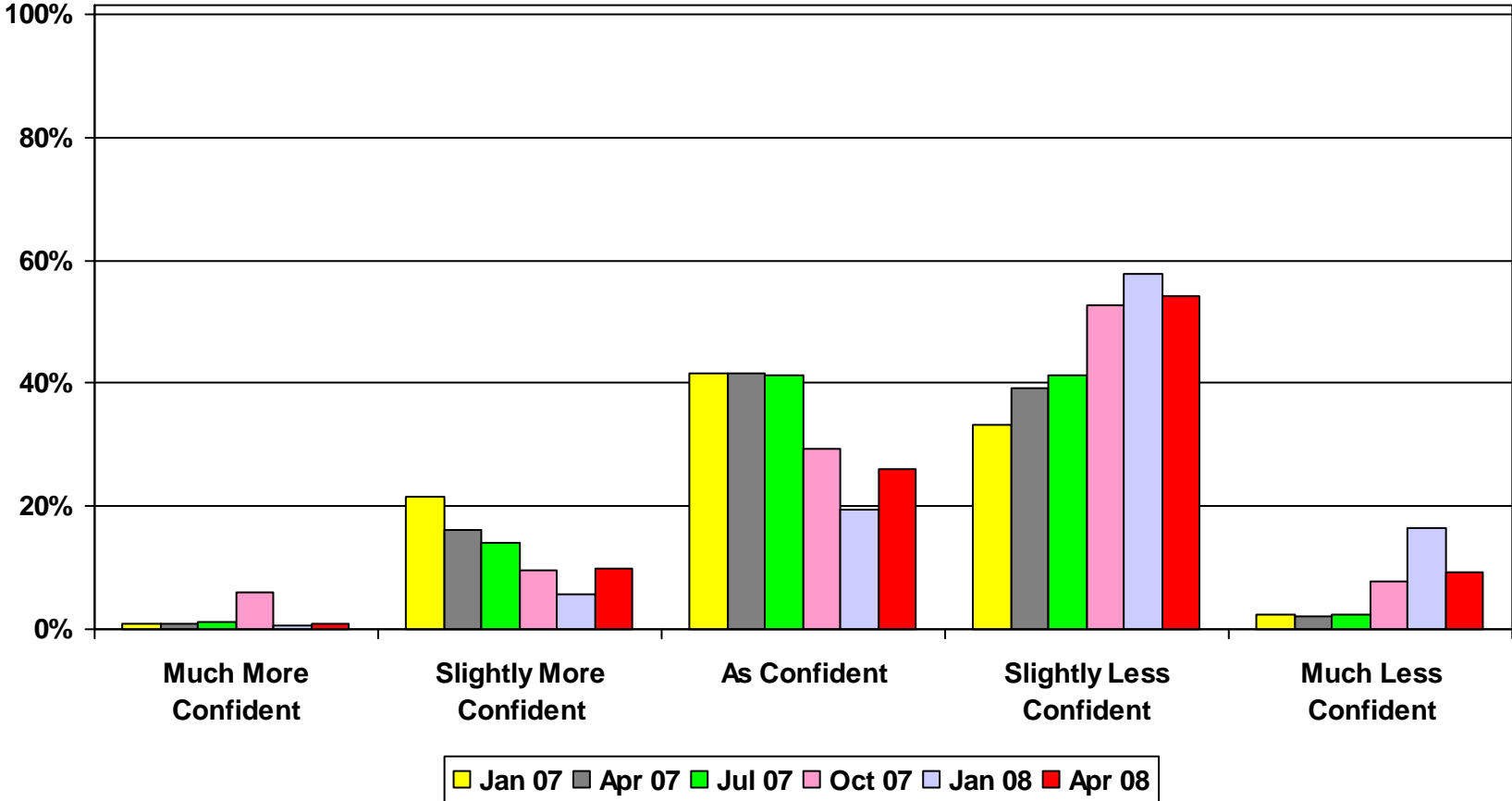
Please select the rating that best describes your view for the economic outlook for the US for the next 12 months.



# AICPA/UNC Kenan-Flagler Economic Outlook Survey

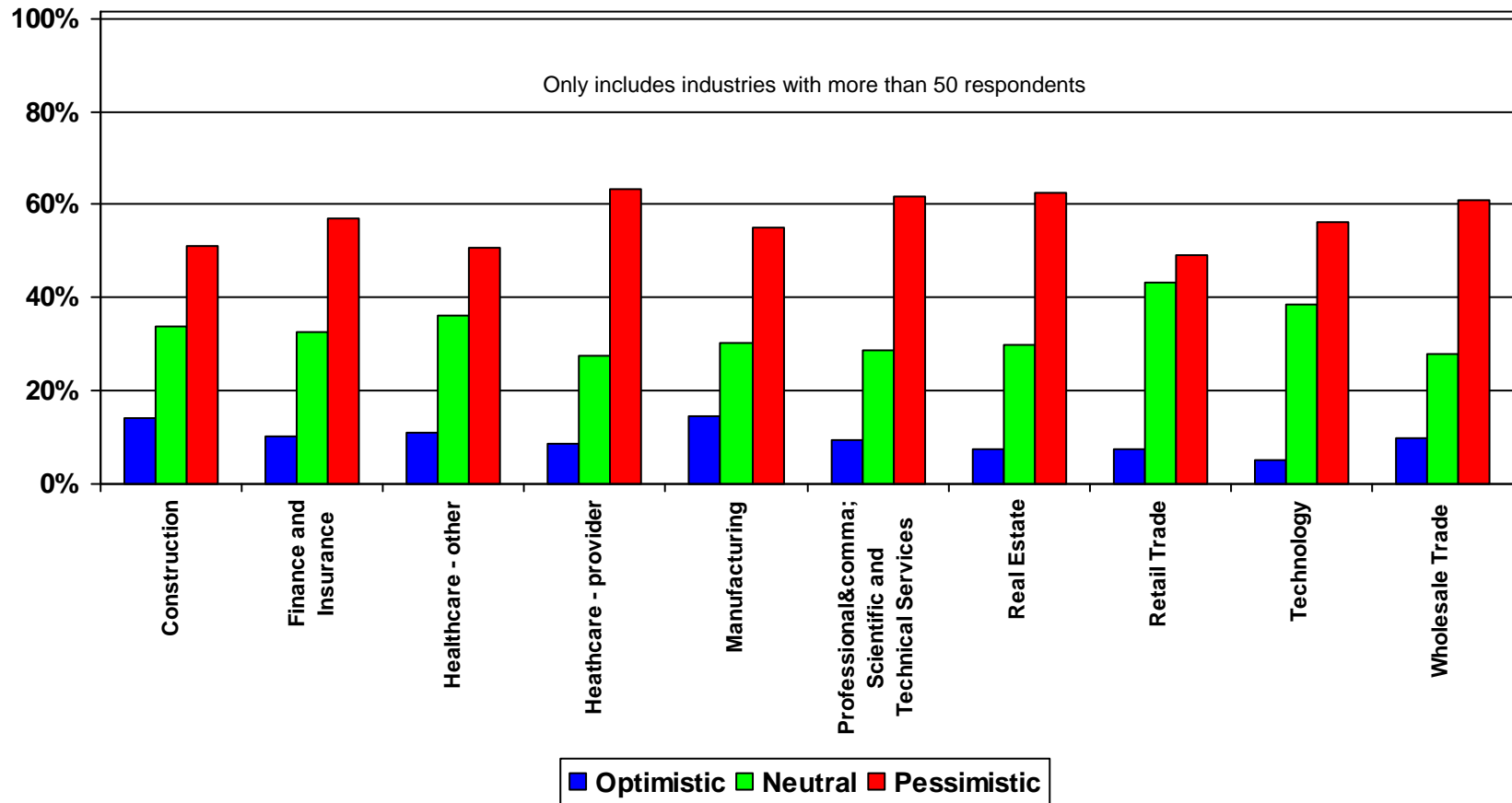
## Change in View US Economic Outlook

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



## Economic Outlook for the US by Industry

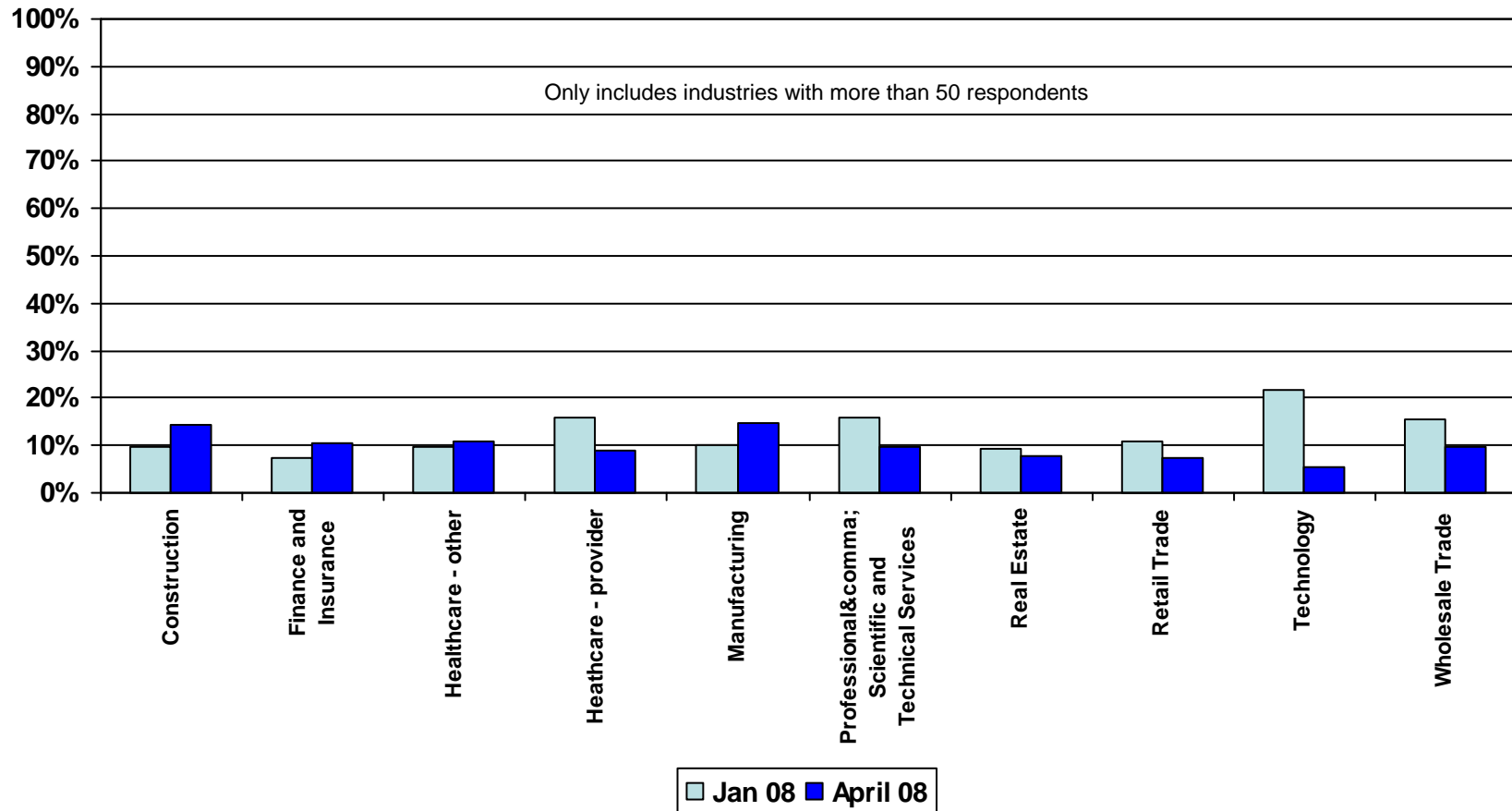
Please select the rating that best describes your view for the economic outlook for the US for the next 12 months.



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## Economic Outlook for the US by Industry -- Optimistic

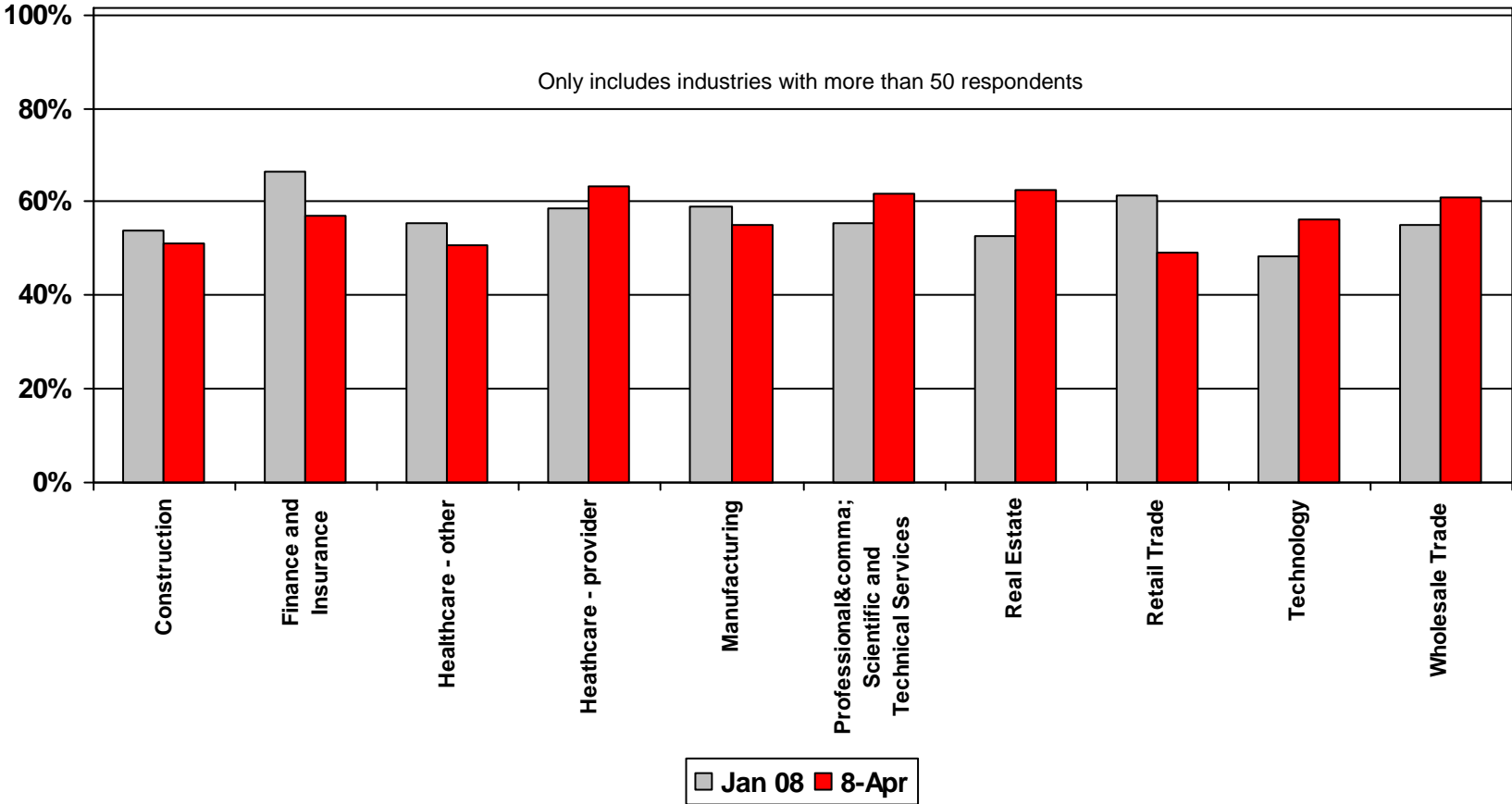
Please select the rating that best describes your view for the economic outlook for the US for the next 12 months.



# AICPA/UNC Kenan-Flagler Economic Outlook Survey

## Economic Outlook for the US by Industry -- Pessimistic

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



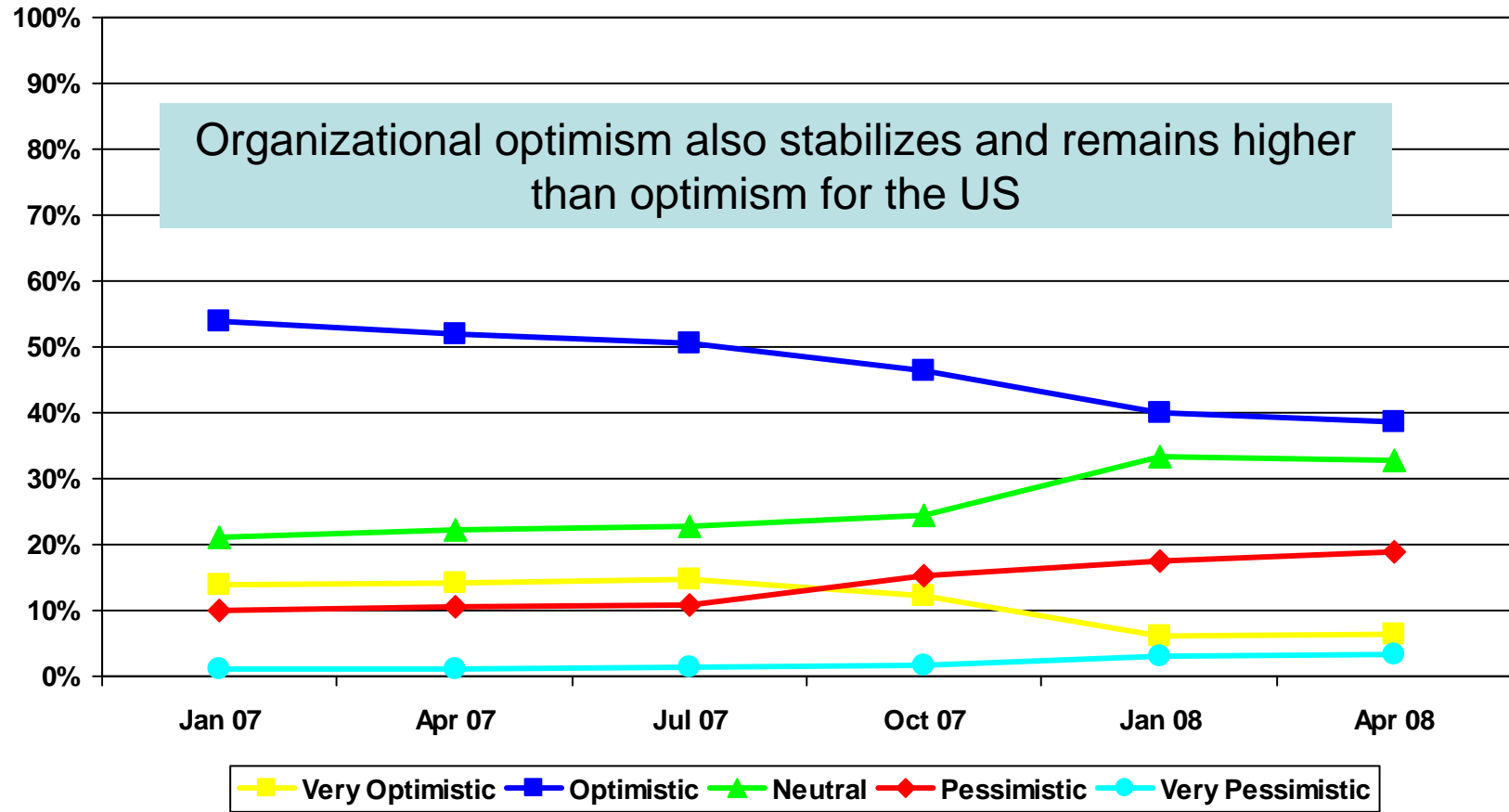
## Your Own Organization

- **Optimism for respondents own organizations also stabilized**
  - Respondents are still more optimistic about their own organizations than about the US economy
  - Optimists still exceed pessimists by a better than 2 to 1 margin
- **Optimism varied somewhat across industries**
  - Technology is the most optimistic about their own prospects followed by Professional Services and Healthcare -- Non-provider
  - Real Estate and Retail Trade had the most pessimists
- **More organizations still expect to expand than contract**
  - Technology, Professional Services, Healthcare (Provider and non-provider) and Finance and Insurance industries all expect expansion

# AICPA/UNC Kenan-Flagler Economic Outlook Survey

## Economic Outlook for Your Own Organization

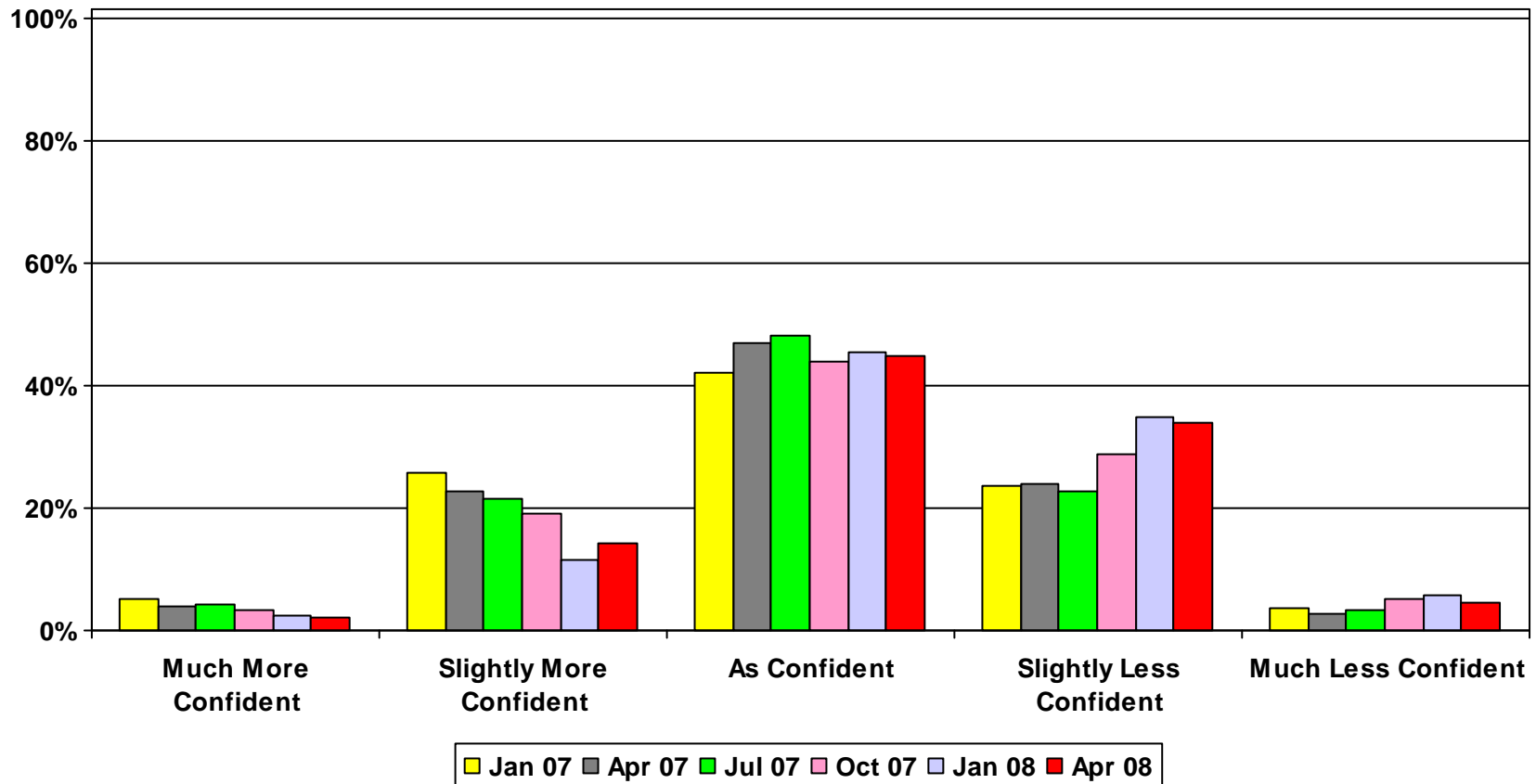
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months..



# AICPA/UNC Kenan-Flagler Economic Outlook Survey

## Change in View -- Outlook for your Organization

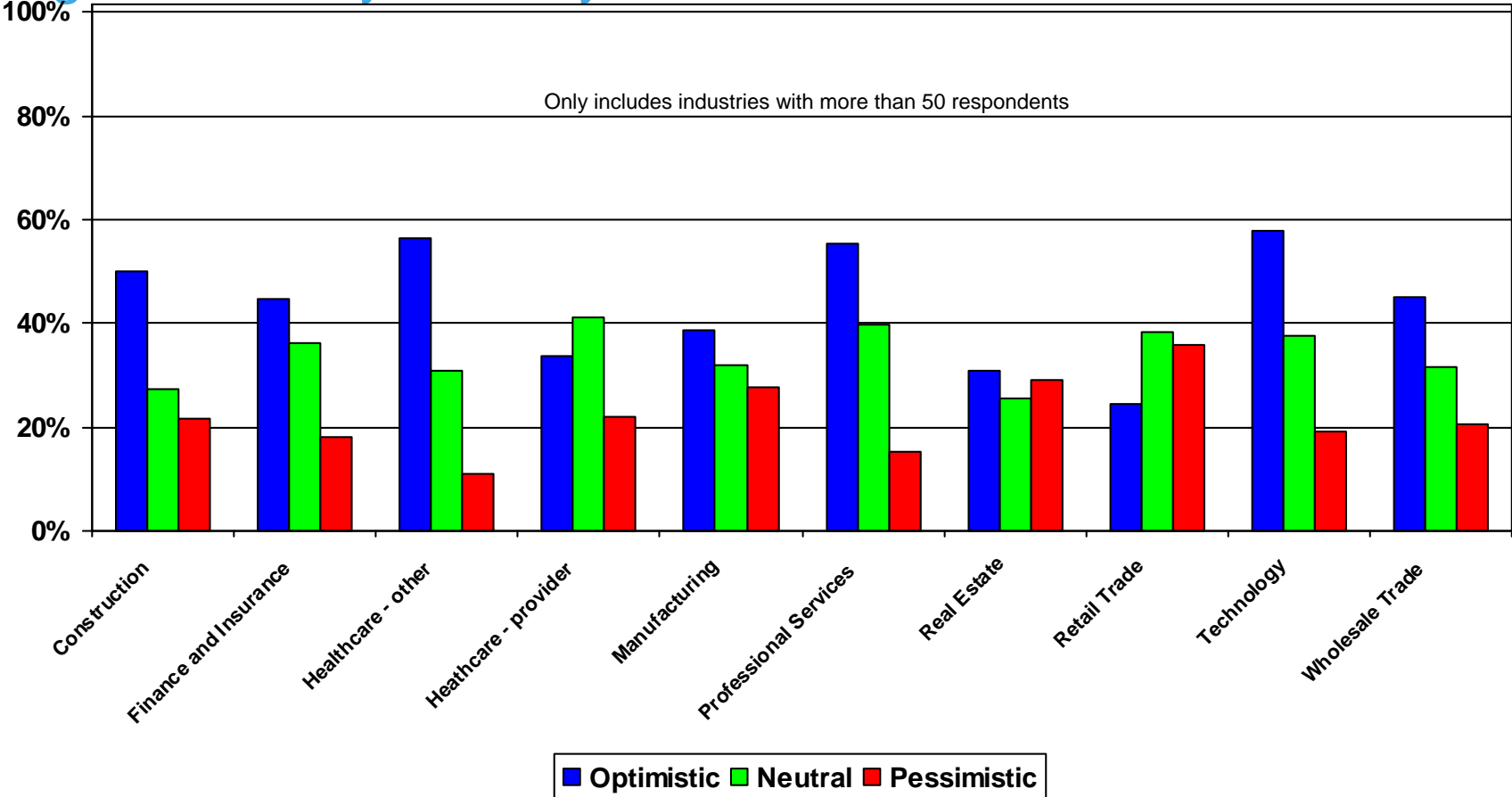
Please how your view has changed from the previous twelve month period for the economic outlook for your organization for the next 12 months.



# AICPA/UNC Kenan-Flagler Economic Outlook Survey

## Economic Outlook for Your Own Organization by Industry

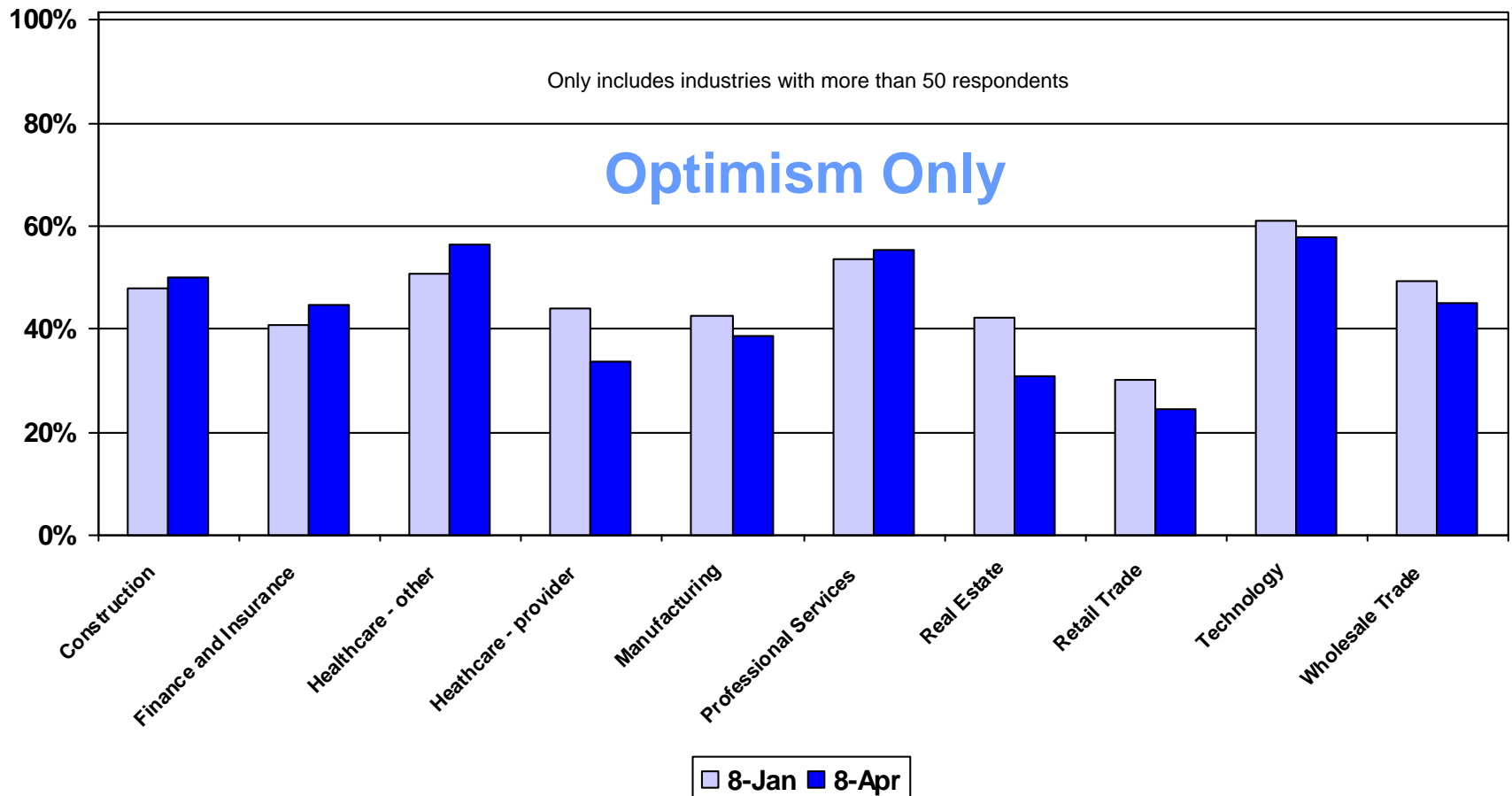
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months..



# AICPA/UNC Kenan-Flagler Economic Outlook Survey

## Economic Outlook for Your Own Organization by Industry

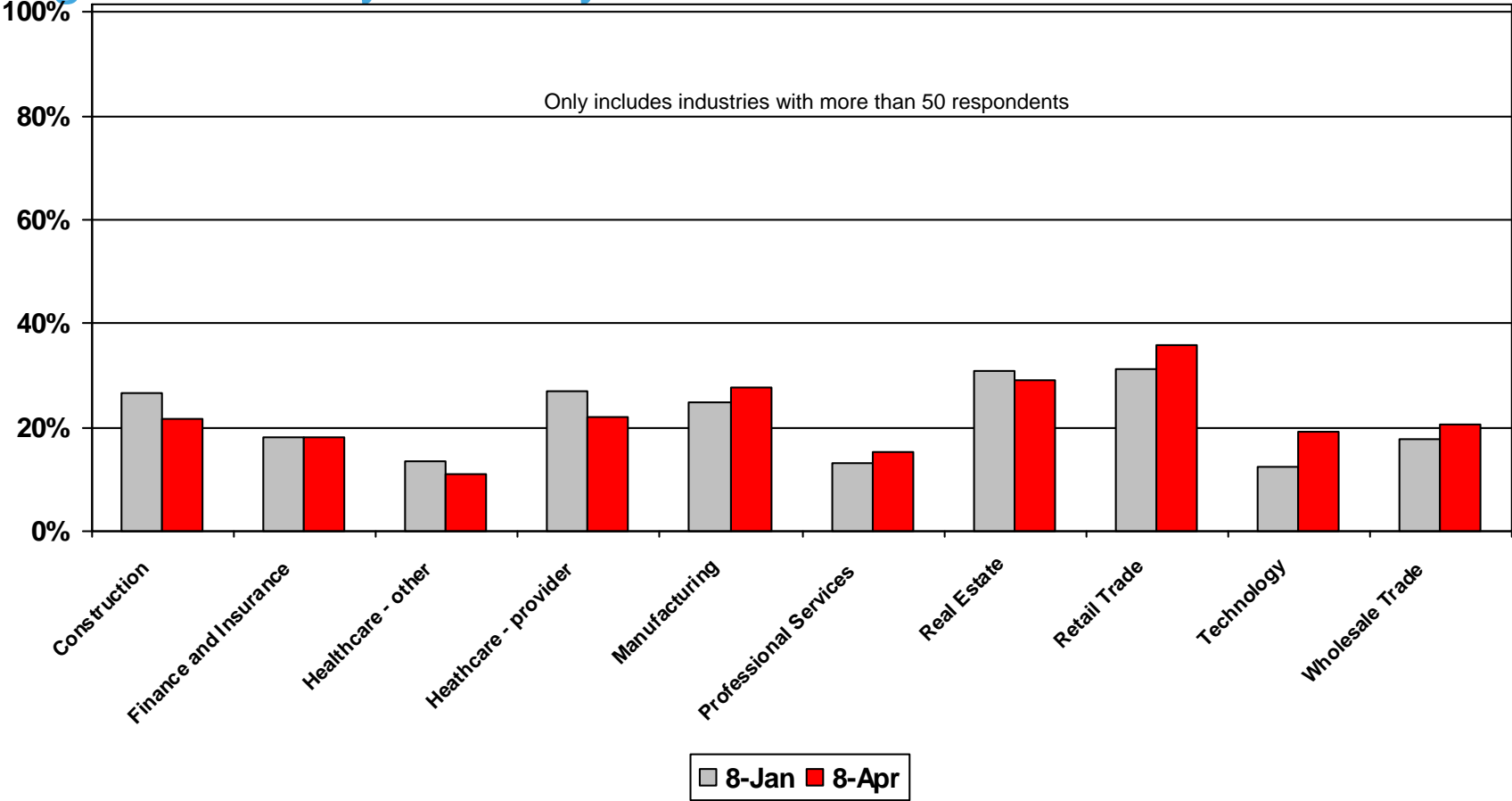
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months..



# AICPA/UNC Kenan-Flagler Economic Outlook Survey

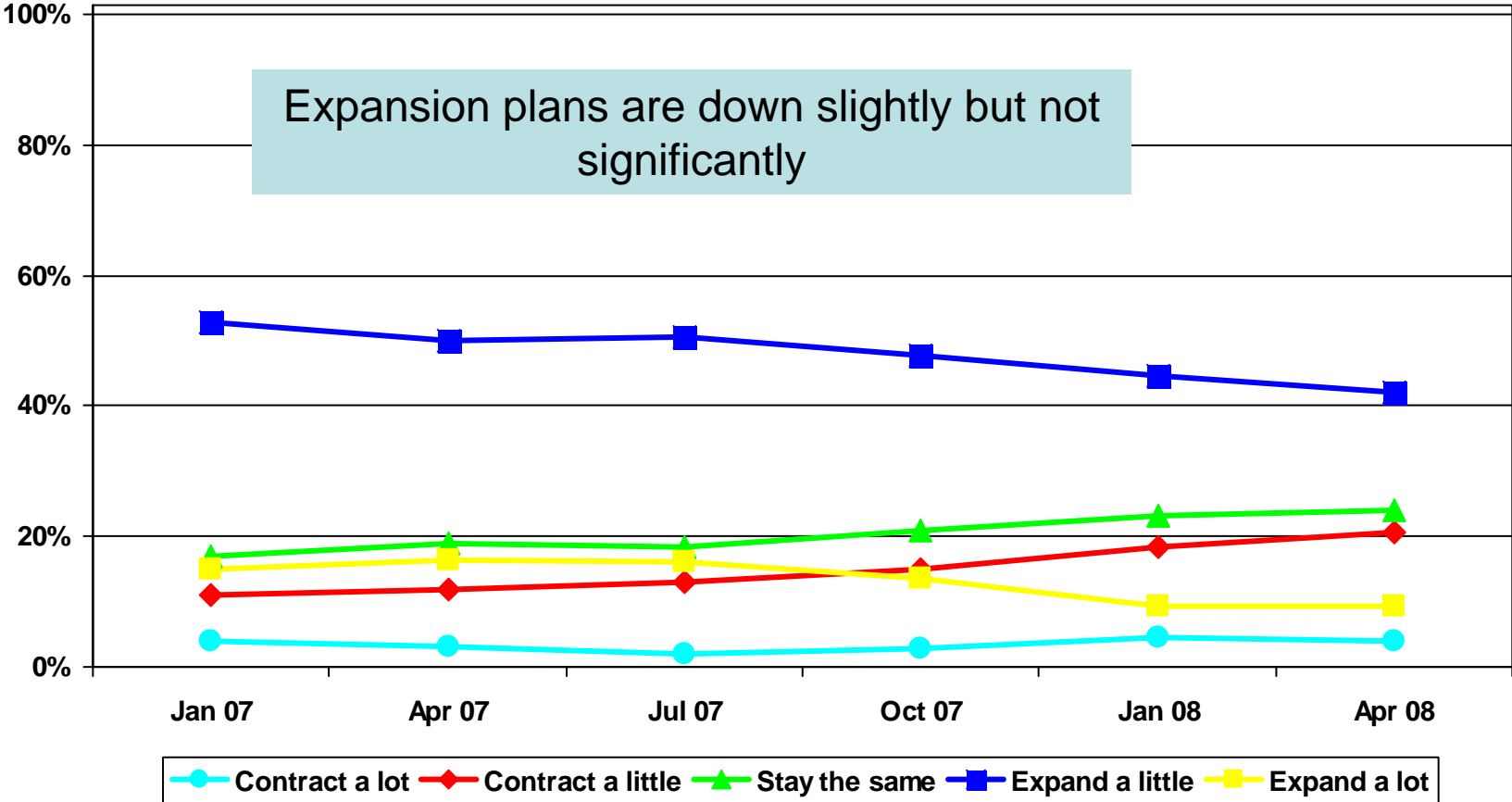
## Economic Outlook for Your Own Organization by Industry

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



# Expansion/Contraction of Your Own Organization

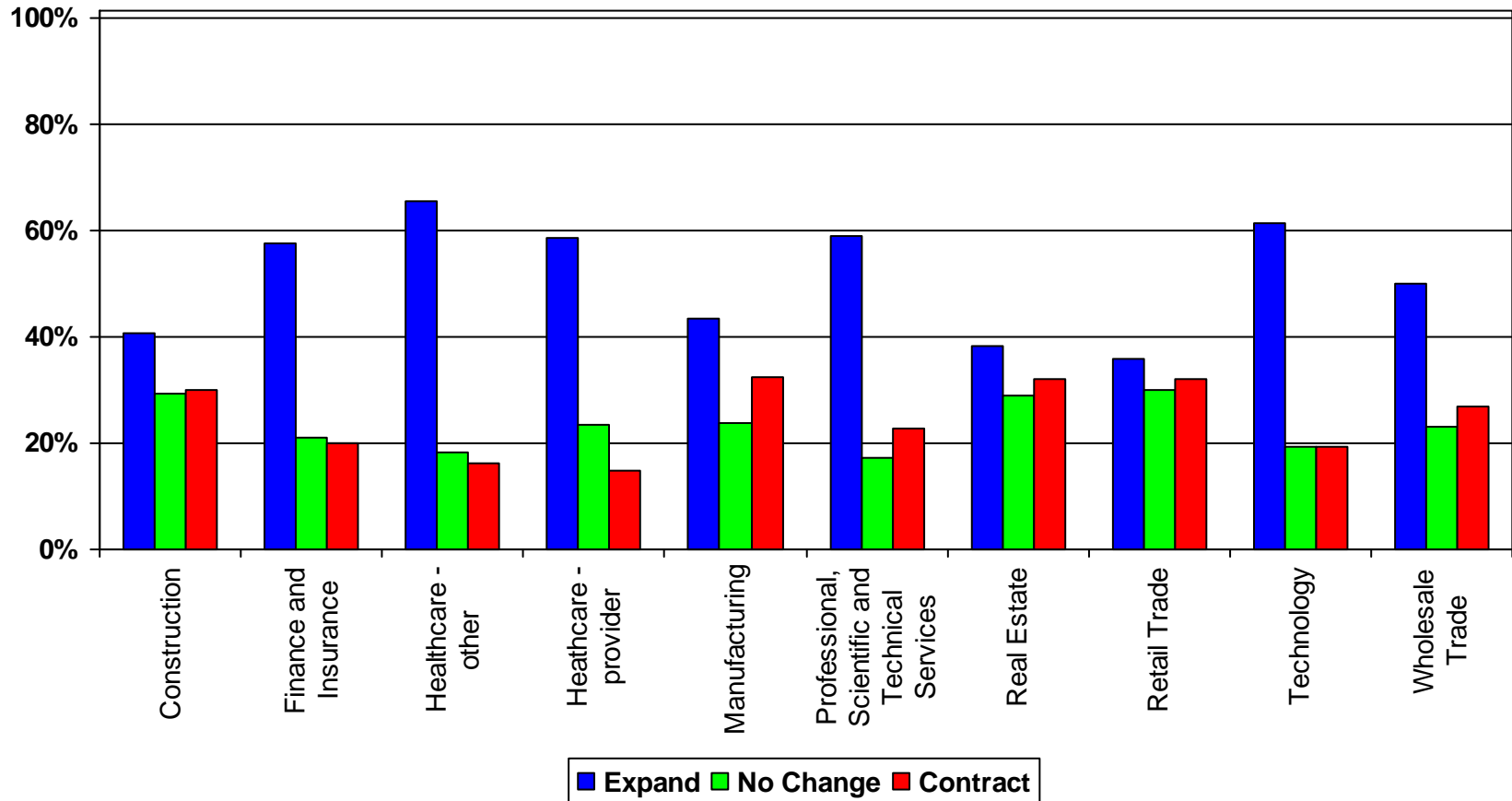
Please indicate whether you expect your business to expand or contract over the next 12 months.



# AICPA/UNC Kenan-Flagler Economic Outlook Survey

## Expansion or Contraction by industry

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



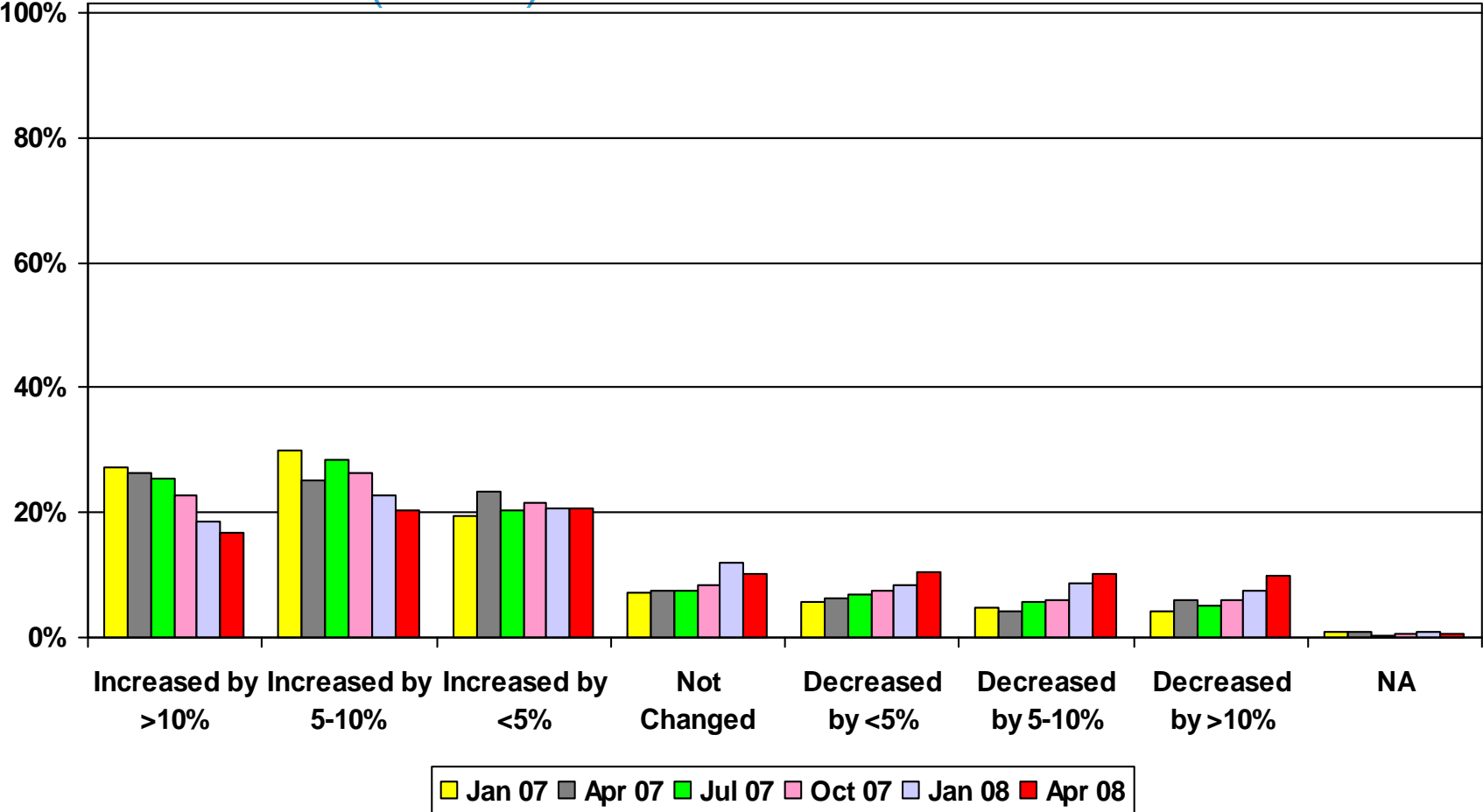
## Key Performance Indicators

- **Expectations for revenue & profit growth have drifted downward**
  - Majority still expect revenue increases
  - About half expect profit increases
- **Employment prospects remain strong but vary somewhat by industry**
  - Technology is most likely to expect employment growth
  - Construction and manufacturing are most likely to see decreases

# AICPA/UNC Kenan-Flagler Economic Outlook Survey

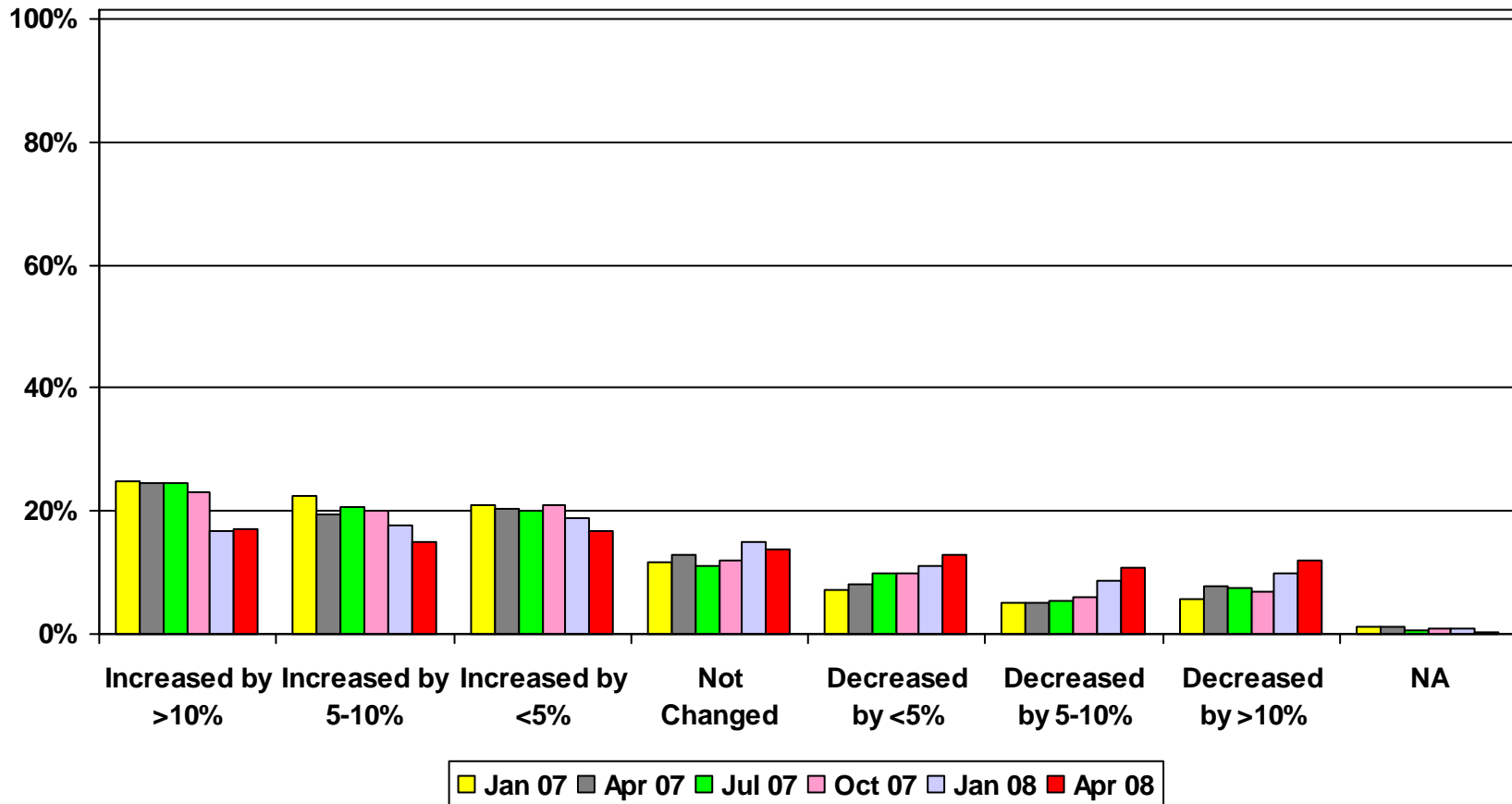
## Key Performance Indicators Total Revenue (Sales)

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



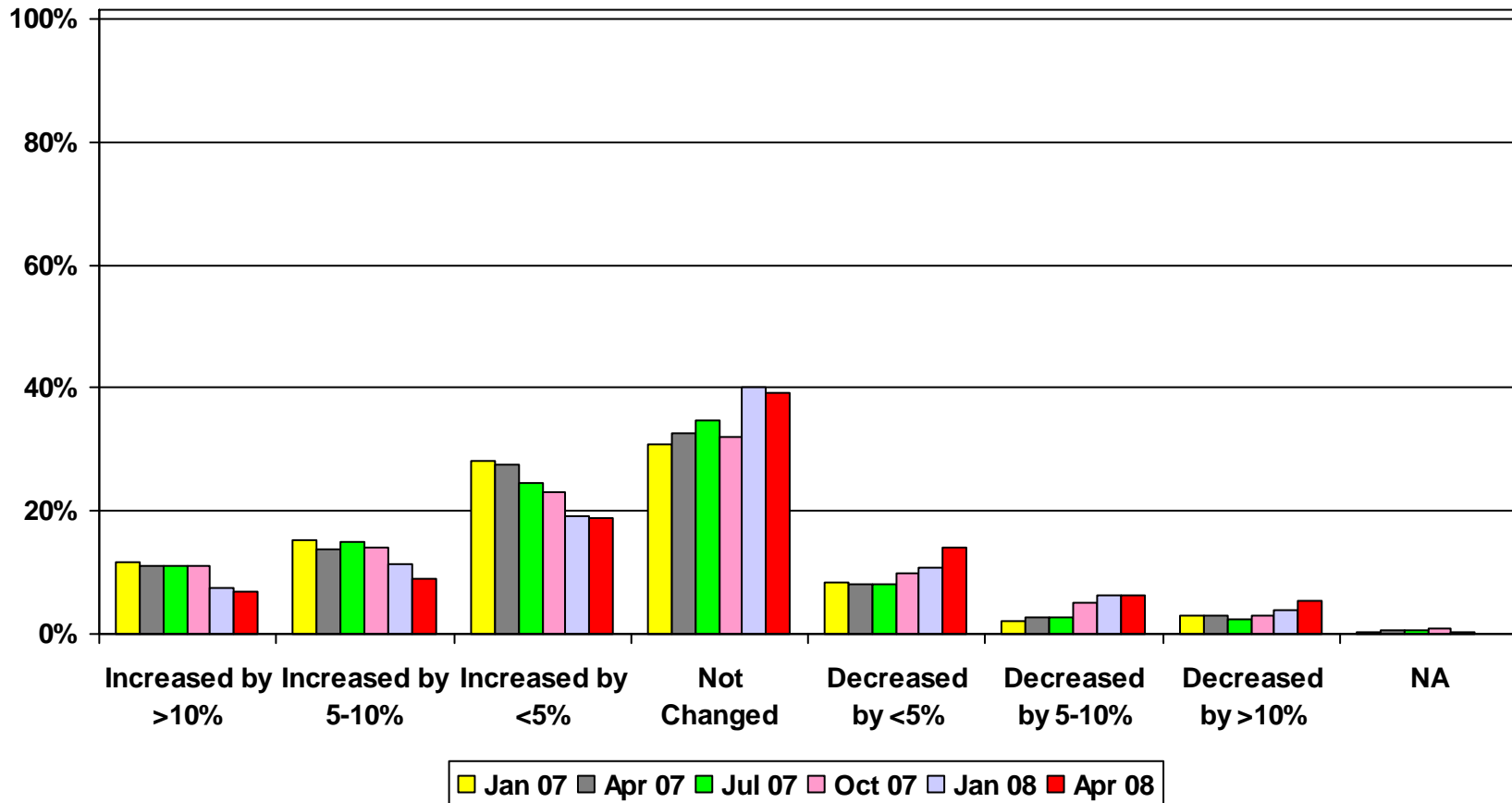
## Key Performance Indicators Total Profits (Net Income)

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



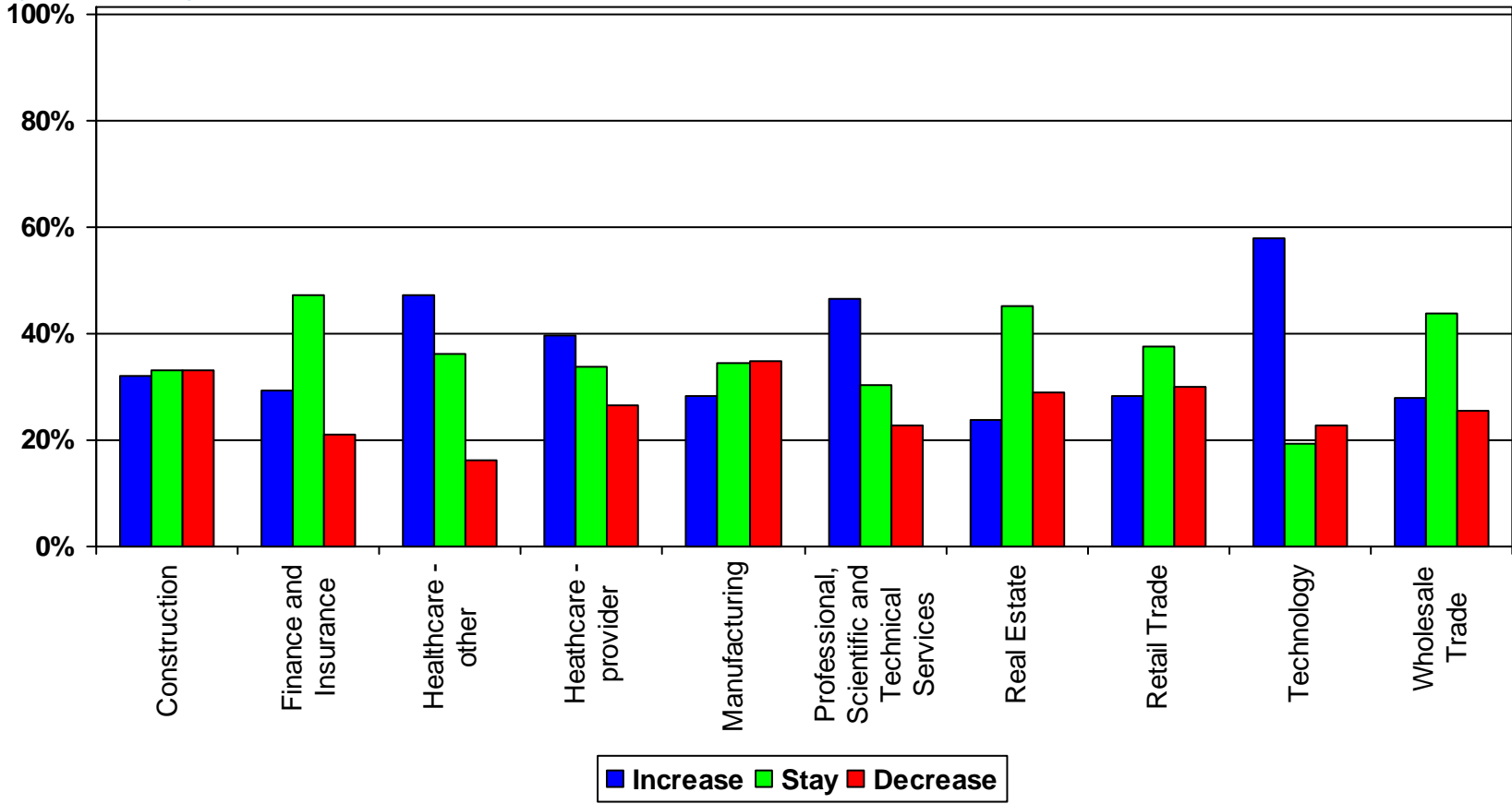
## Key Performance Indicators Number of Employees

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



## Key Performance Indicators Number of Employees by industry

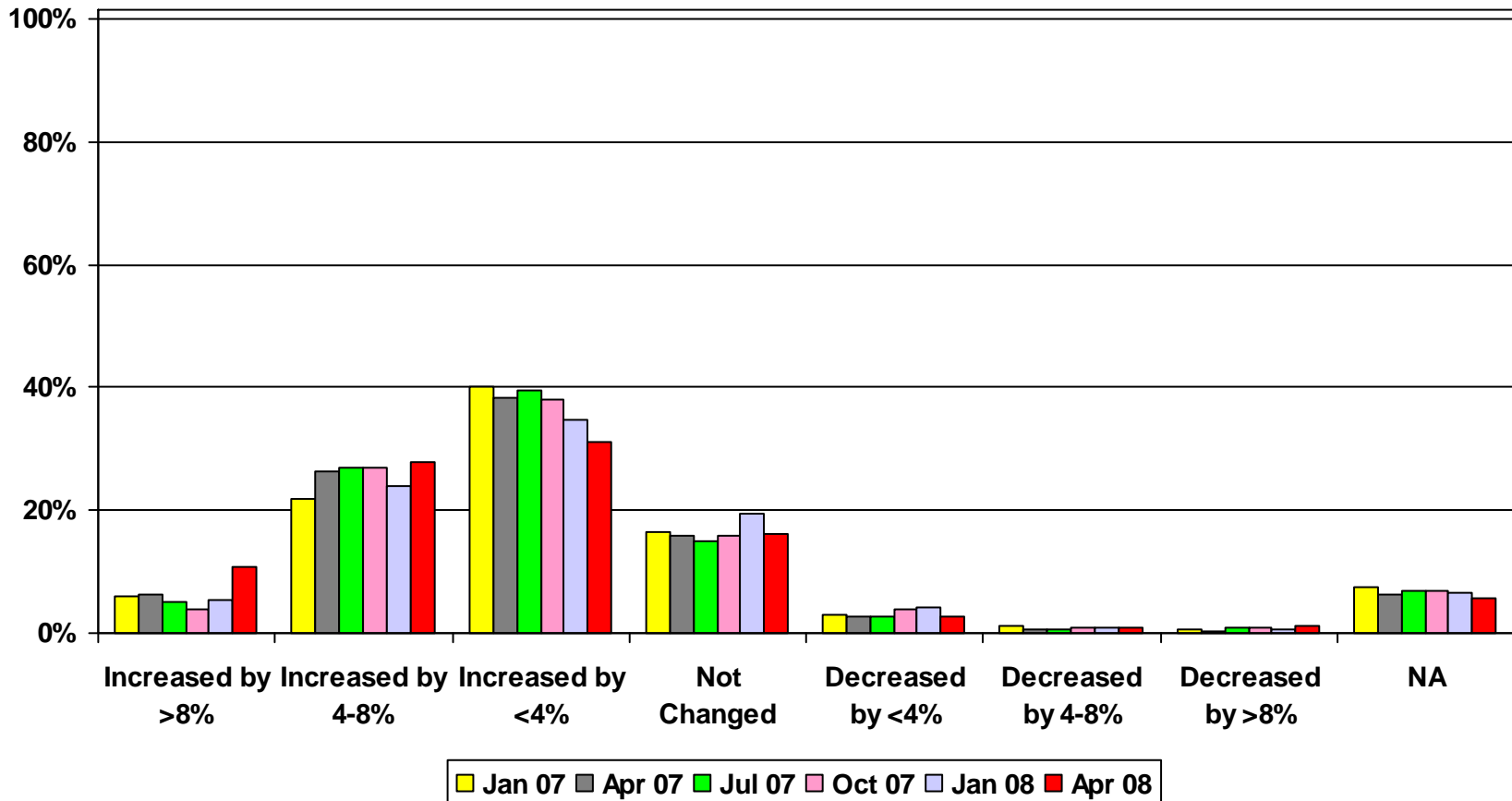
Thinking about the coming 12 months, please comment on the probable change for your organization for Number of Employees



# AICPA/UNC Kenan-Flagler Economic Outlook Survey

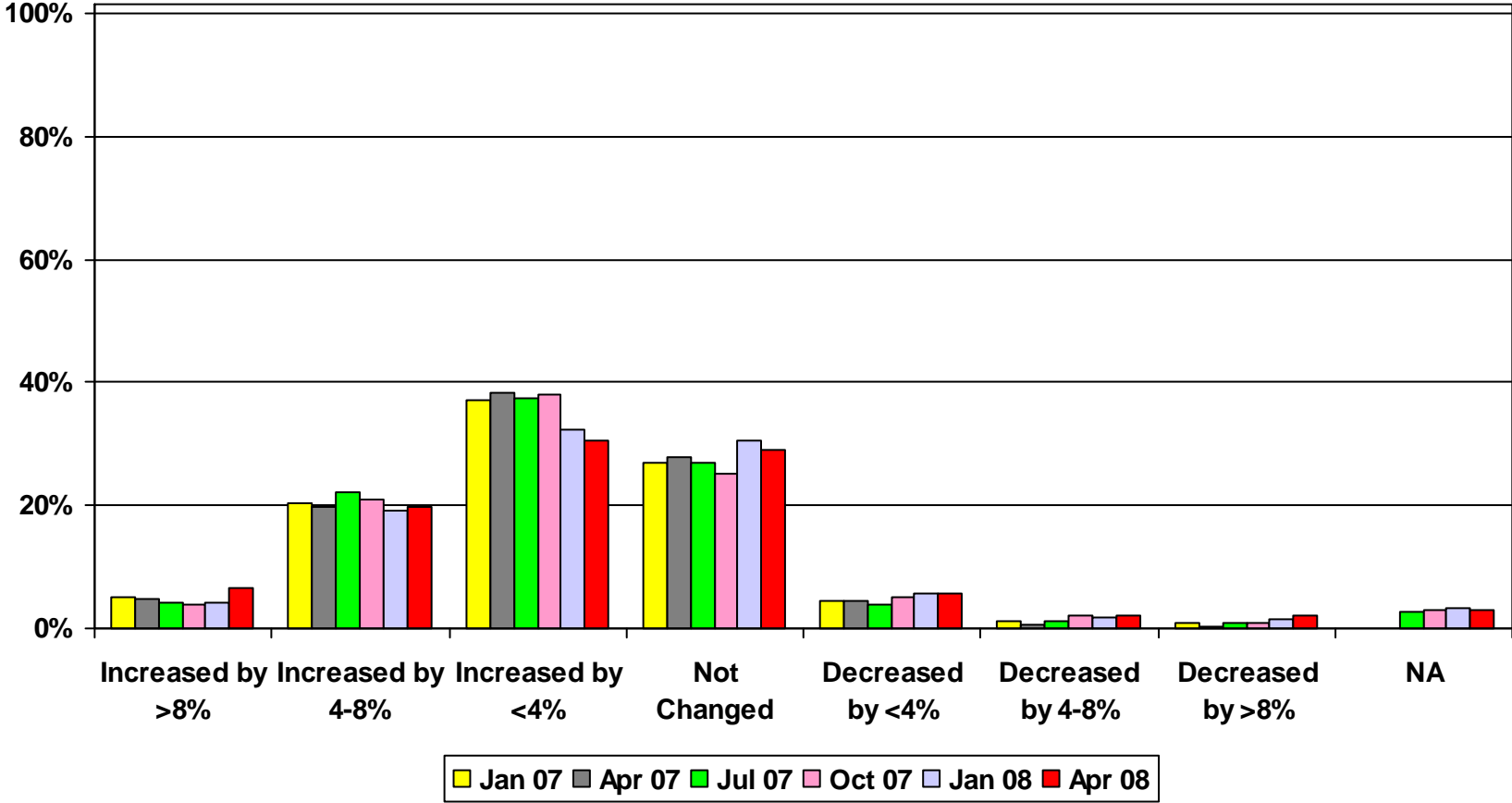
## Pricing & Costs Input Prices

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



## Pricing & Costs Prices your Organization Charges

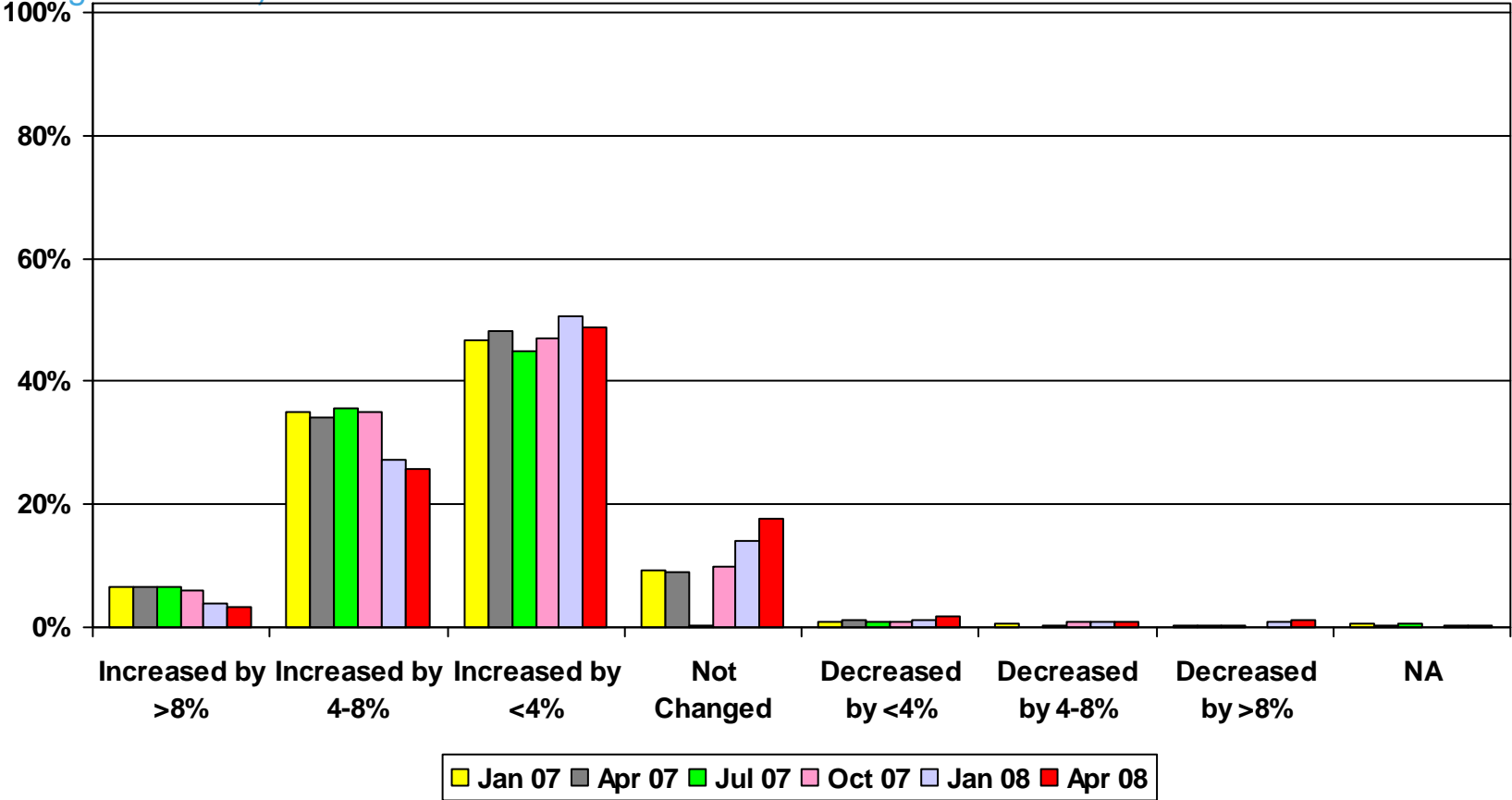
Thinking about the coming 12 months, please comment on the probable change for your organization for Prices your organization charges



## Pricing & Costs Average total salary & benefits

(excluding healthcare)

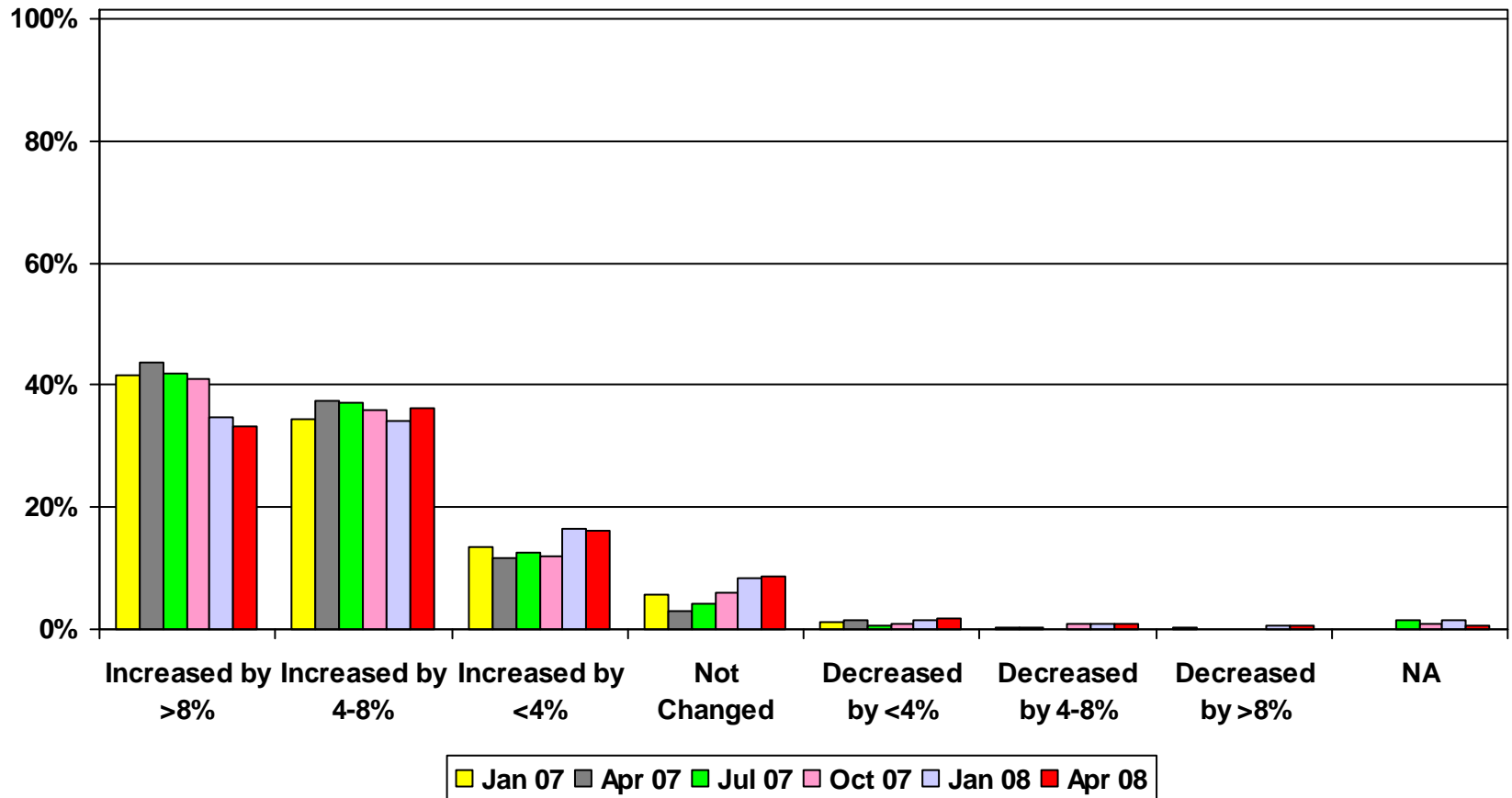
Thinking about the coming 12 months, please comment on the probable change for your organization for the average total salary & benefit package (excluding healthcare)



# AICPA/UNC Kenan-Flagler Economic Outlook Survey

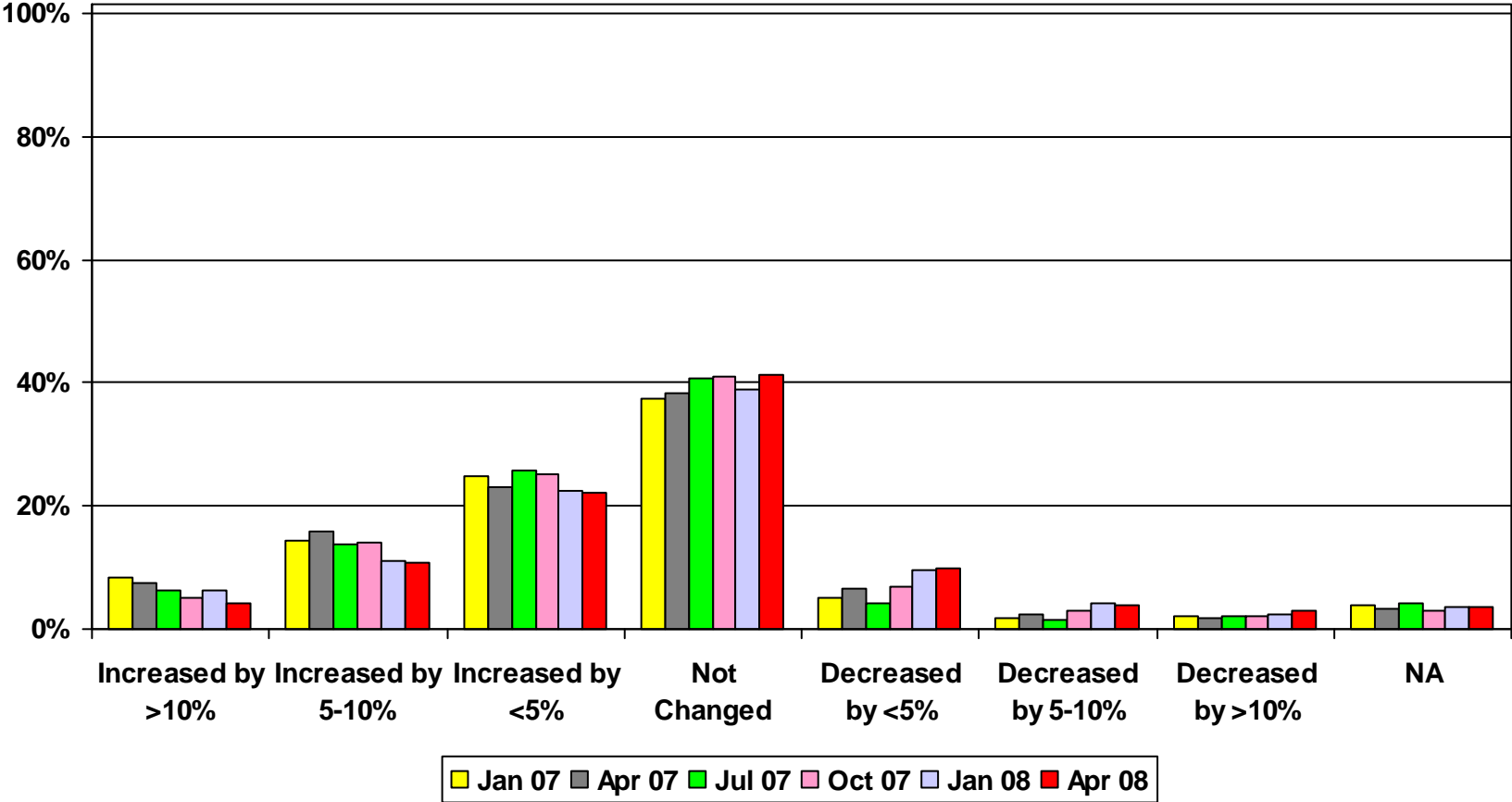
## Pricing & Costs Healthcare Costs

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



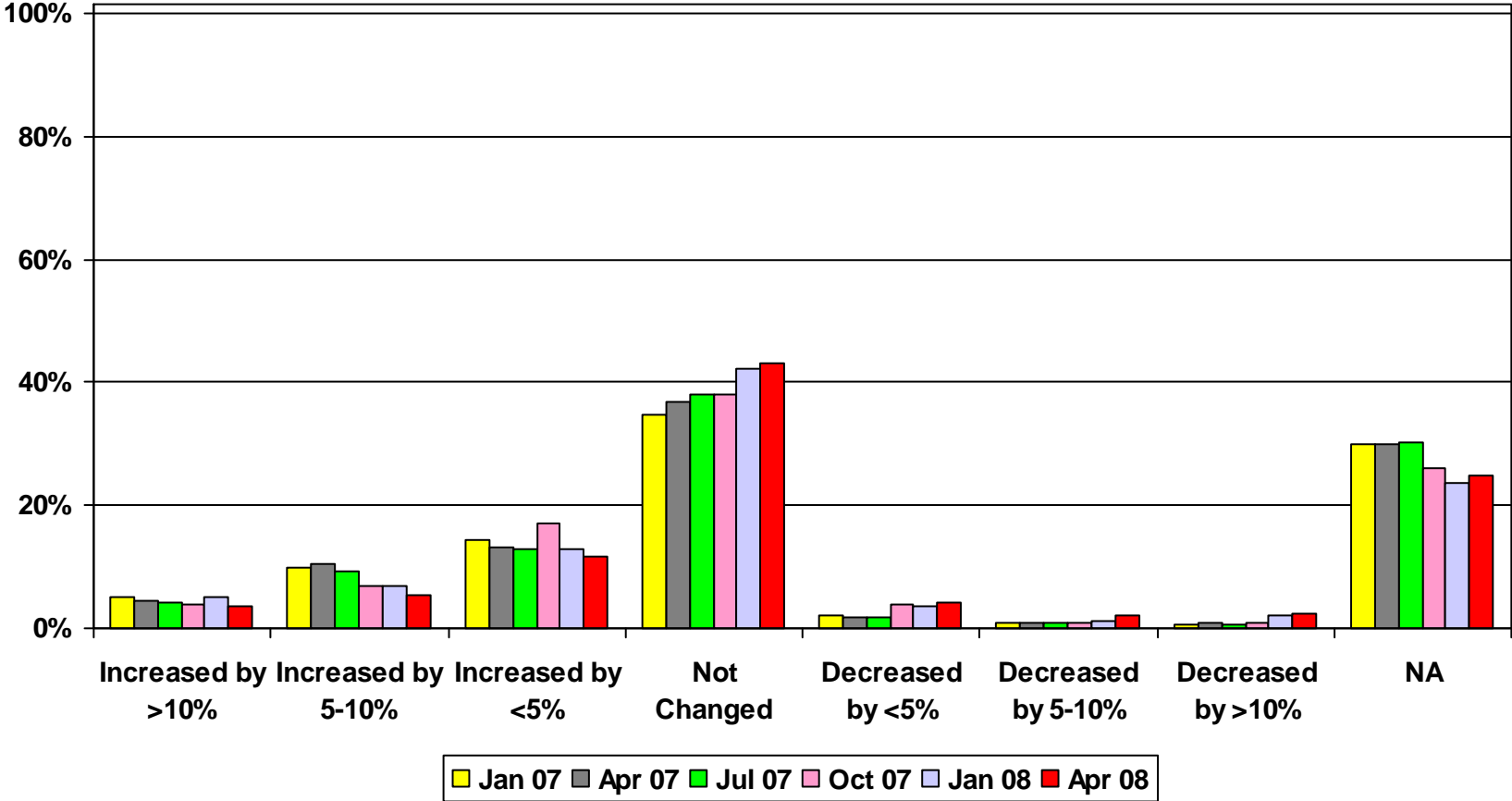
## Spending Plans Advertising, Sales & Marketing

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



## Spending Plans Research & Product Development

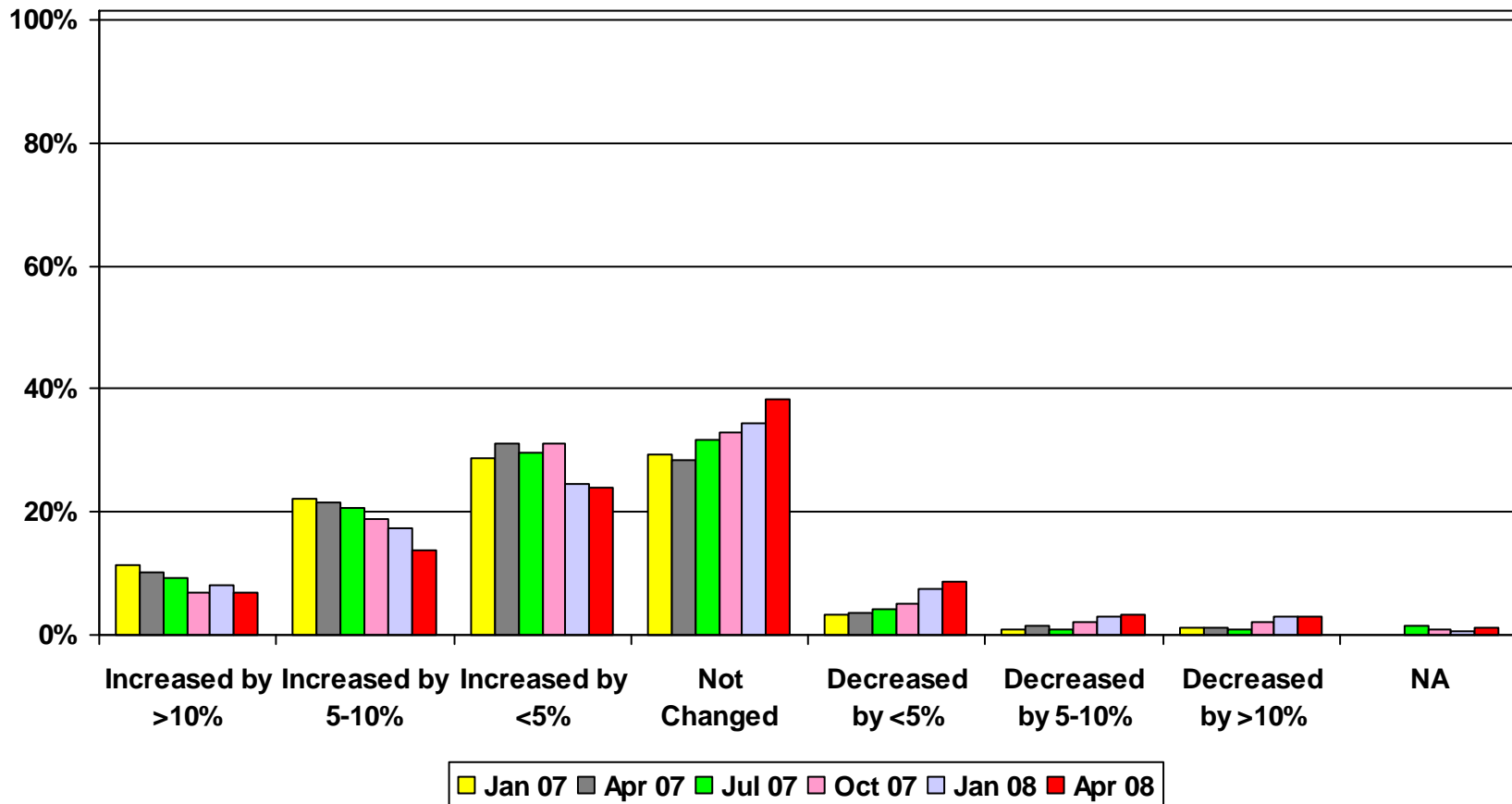
Thinking about the coming 12 months, please comment on the probable change for your organization for research and new product development budget



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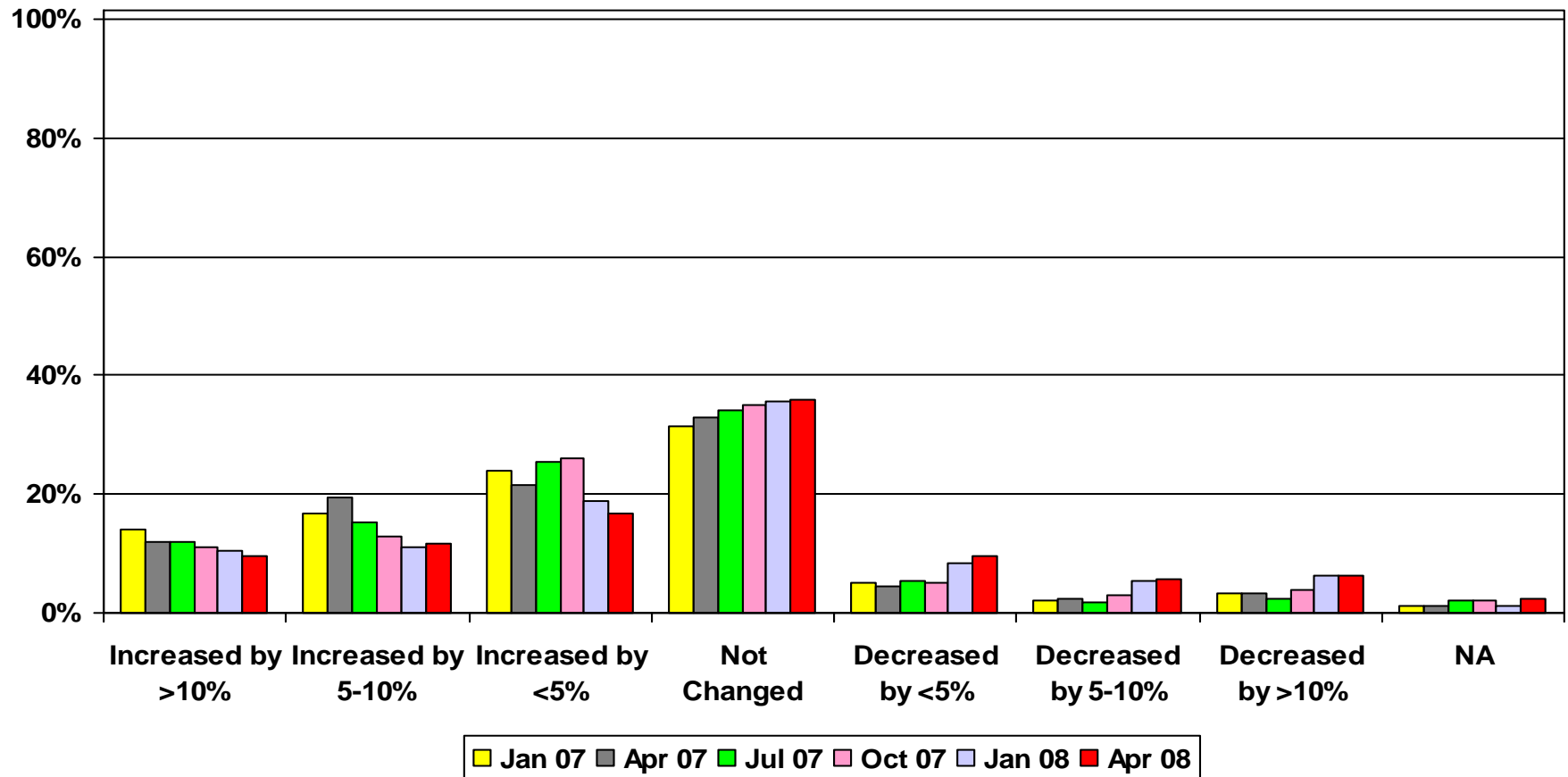
Thinking about the coming 12 months, please comment on the probable change for your organization for information technology budget

## Spending Plans Information Technology



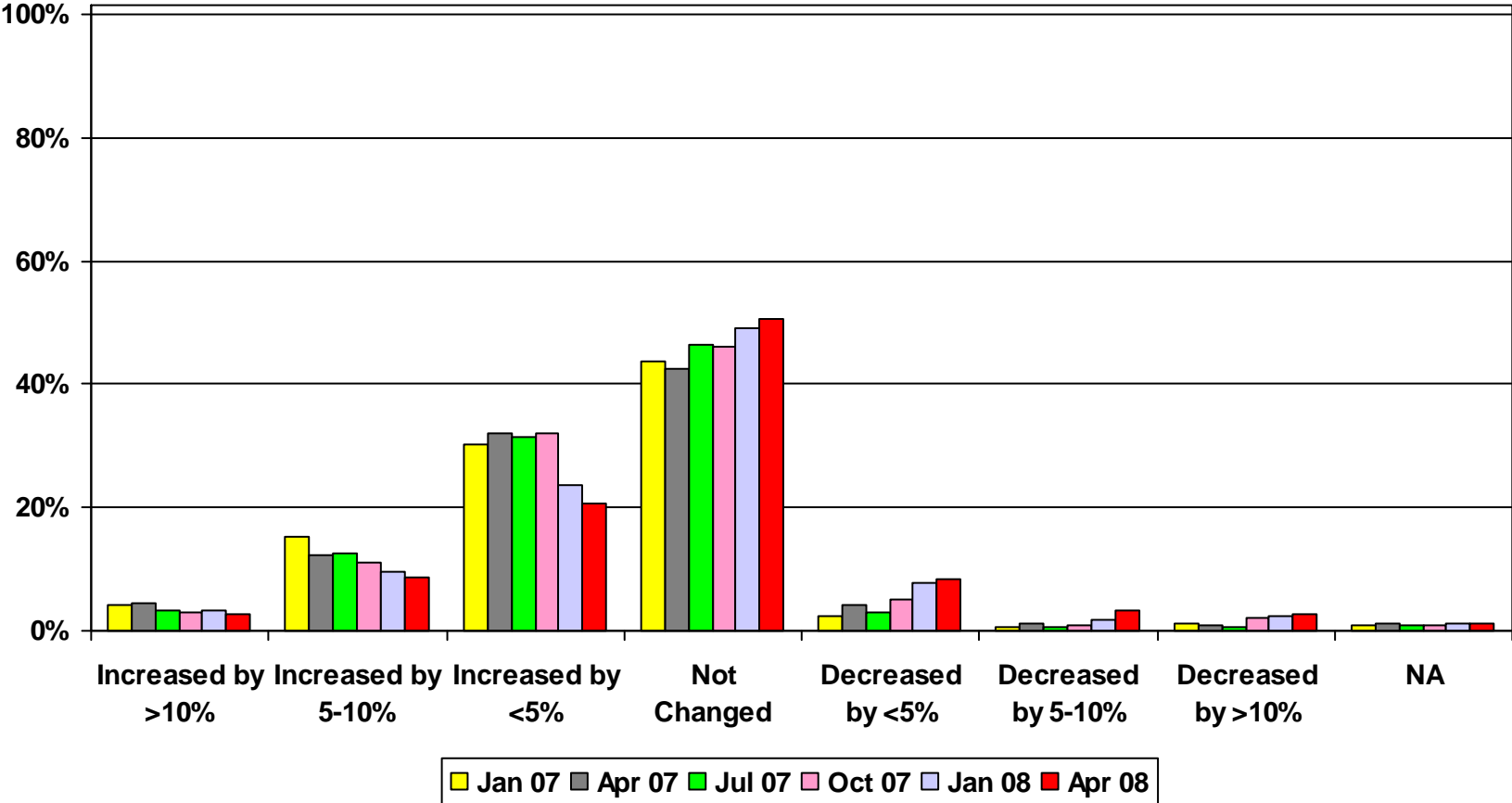
## Spending Plans Other capital investment

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



## Spending 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



## Top three challenges facing organizations

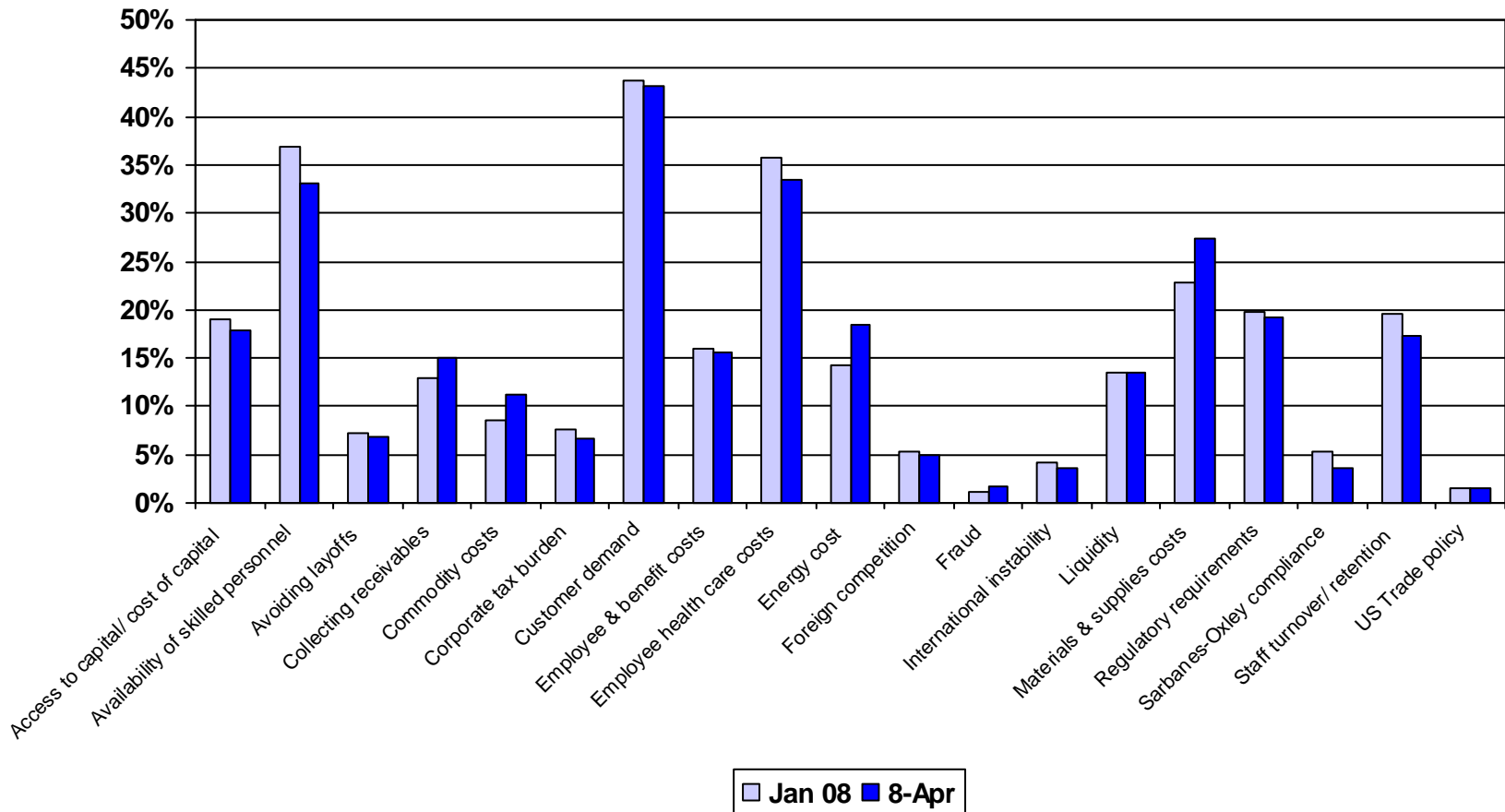
- The top three challenges facing organizations remain:
  - Customer demand
  - Availability of skilled personnel
  - Employee healthcare costs
- Challenges showing increased traction this quarter include
  - Energy costs
  - Supplies & materials costs
  - Collecting receivables
- The increases in these categories track with the open-ended comments on the economy in general where concerns about increase fuel and general costs predominated.

Note: Each respondent provided three challenges so totals are greater than 100%

# AICPA/UNC Kenan-Flagler Economic Outlook Survey

## Top Three Challenges for Organizations

Please indicate the top three challenges for your organization? Note: Each respondent provided three challenges so totals are greater than 100%



## 2Q 2008 Unique Questions

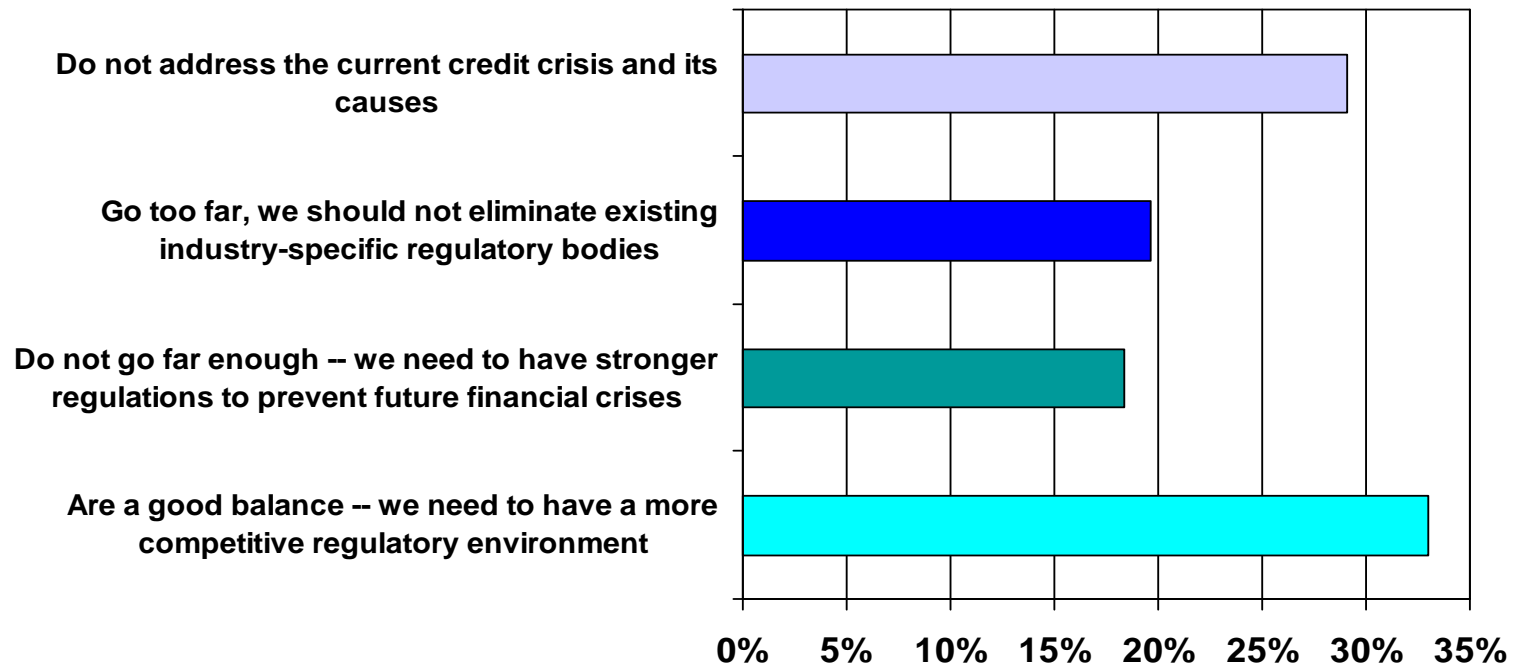
Each quarter several questions focusing on topical issues are asked

### 2Q 2008 questions focused on thoughts on Treasury Secretary Paulson's "Blueprint for a Modernized Financial Regulatory System", the credit market crisis, and responses to current economic conditions

- **Blueprint** – respondents were fairly spread among those who think it is a good balance, those who think it doesn't address the current crisis and those who think it goes either too far or not far enough
- **Direct impact of credit market crisis** – 45% are not impacted, 19% are experiencing customer collection issues, 18% have higher credit costs and 14% and 36% feel the Fed needs to be more aggressive
- **Strategies to respond to credit market crisis** – 50% have not changed strategies. The primary reaction of those who have was to tighten collectibles and cost management
- **Impact of declining dollar** – most respondents have seen no net impact of the dollar decline. For those impacted the primary impact has been reduced customer spending power.
- **Response to current economic conditions** – reactions to the current economic conditions were spread but the most common responses related to increased cost management via travel restrictions, hiring freezes, etc rather than more dramatic actions such as facilities closings

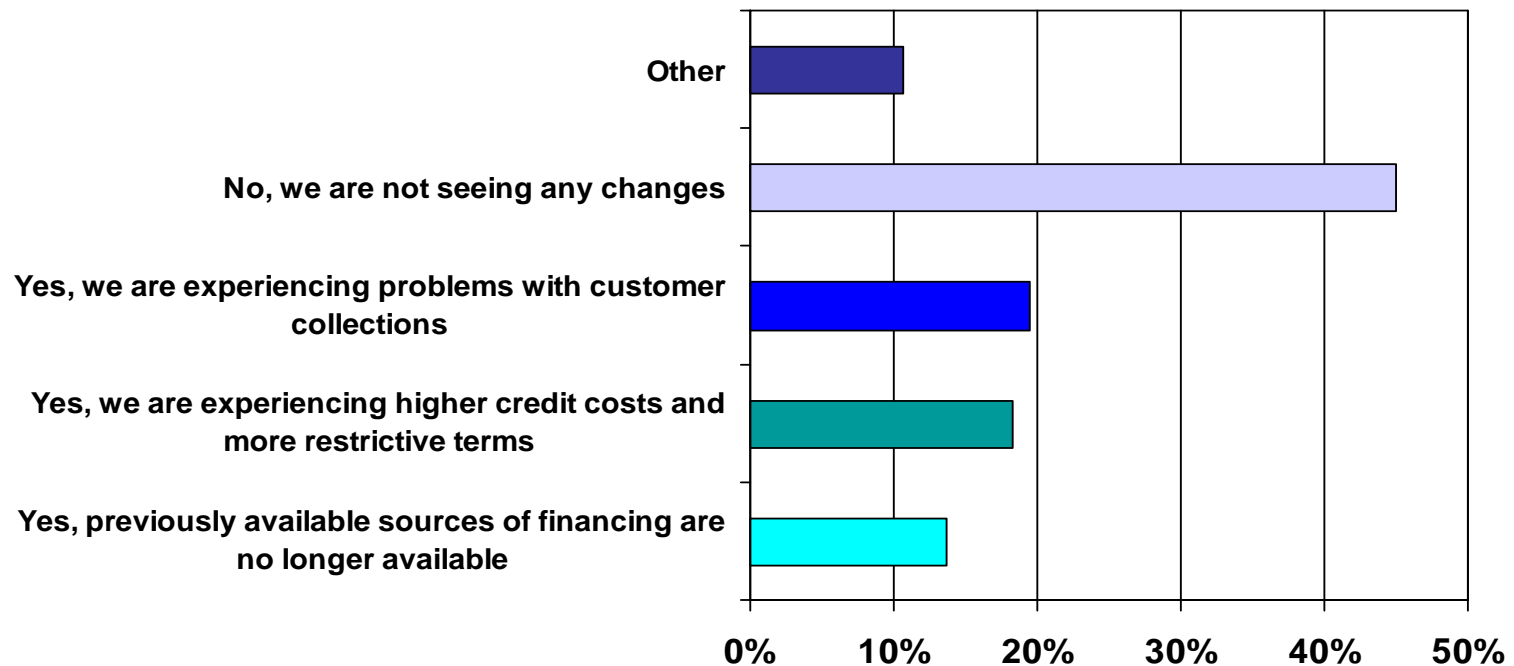
## Opinion on Paulsen's Proposal

Which of the following best characterizes your opinion of Treasury Secretary Paulson's Blueprint for a Modernized Financial Regulatory Structure for a new regulatory architecture? Paulson's proposals--



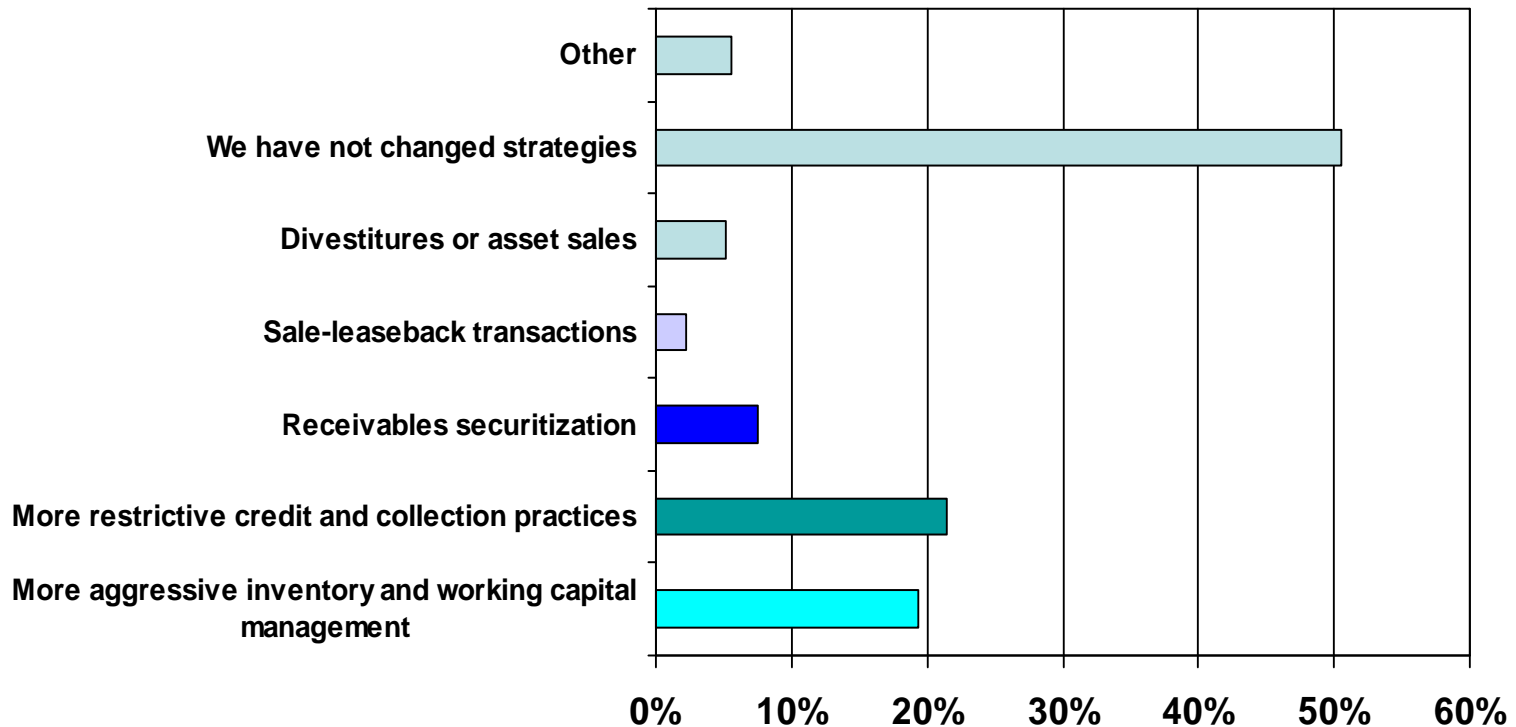
## Credit Market Crisis Impact on Company

Is the credit market crisis impacting your company directly? Please select all that apply.



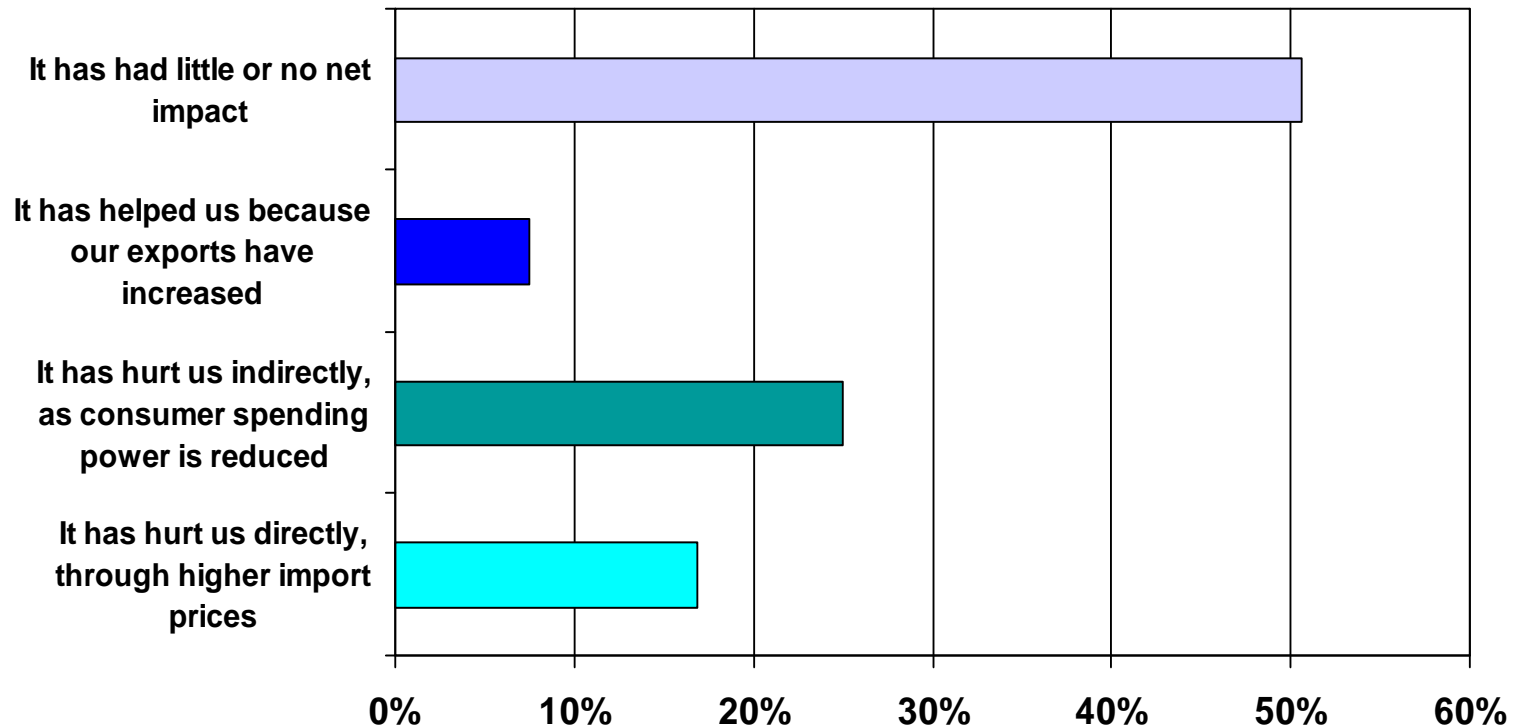
## Strategies to Respond to Credit Market Crisis

Which of the following strategies are you employing in response to the credit market crisis? Please select all that apply



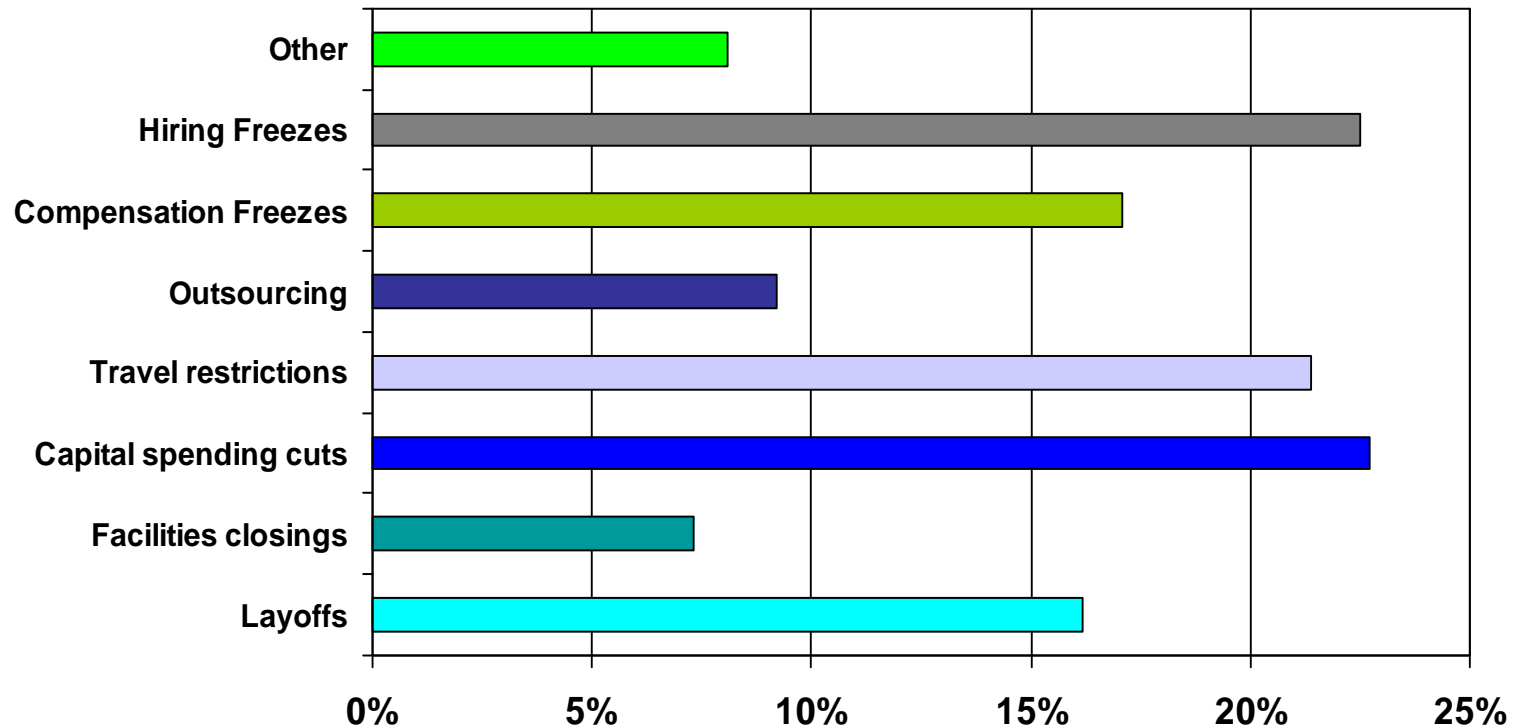
## Impact of Declining Value of the Dollar

What has been the primary impact on your company from the declining value of the dollar?



## Response to Current Economic Conditions

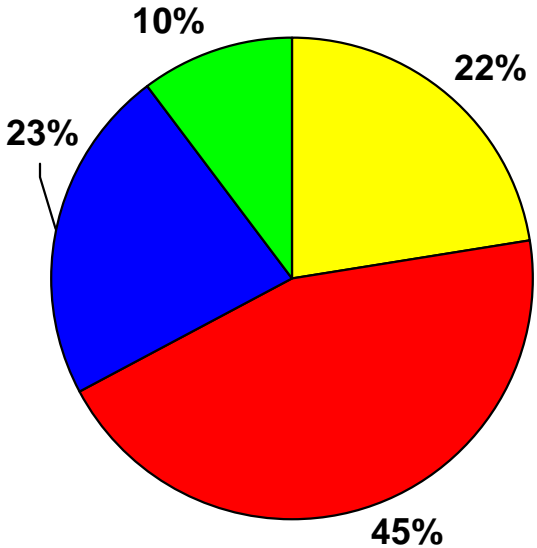
Are you currently planning any of the following measures in response to the current economic conditions? Please select all that apply



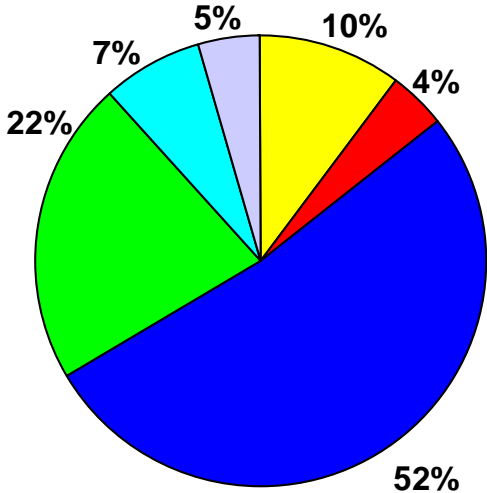
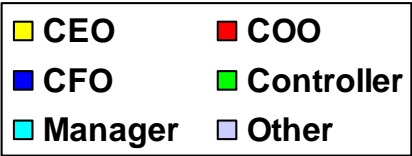
# AICPA/UNC Kenan-Flagler Economic Outlook Survey

## Survey Respondents

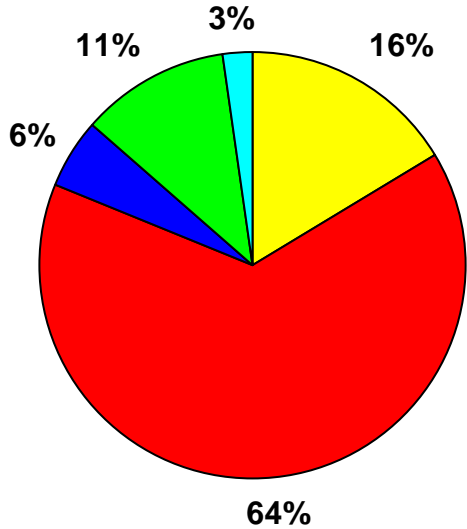
Size of Organization



Position



Type of Organization



# Fair Value

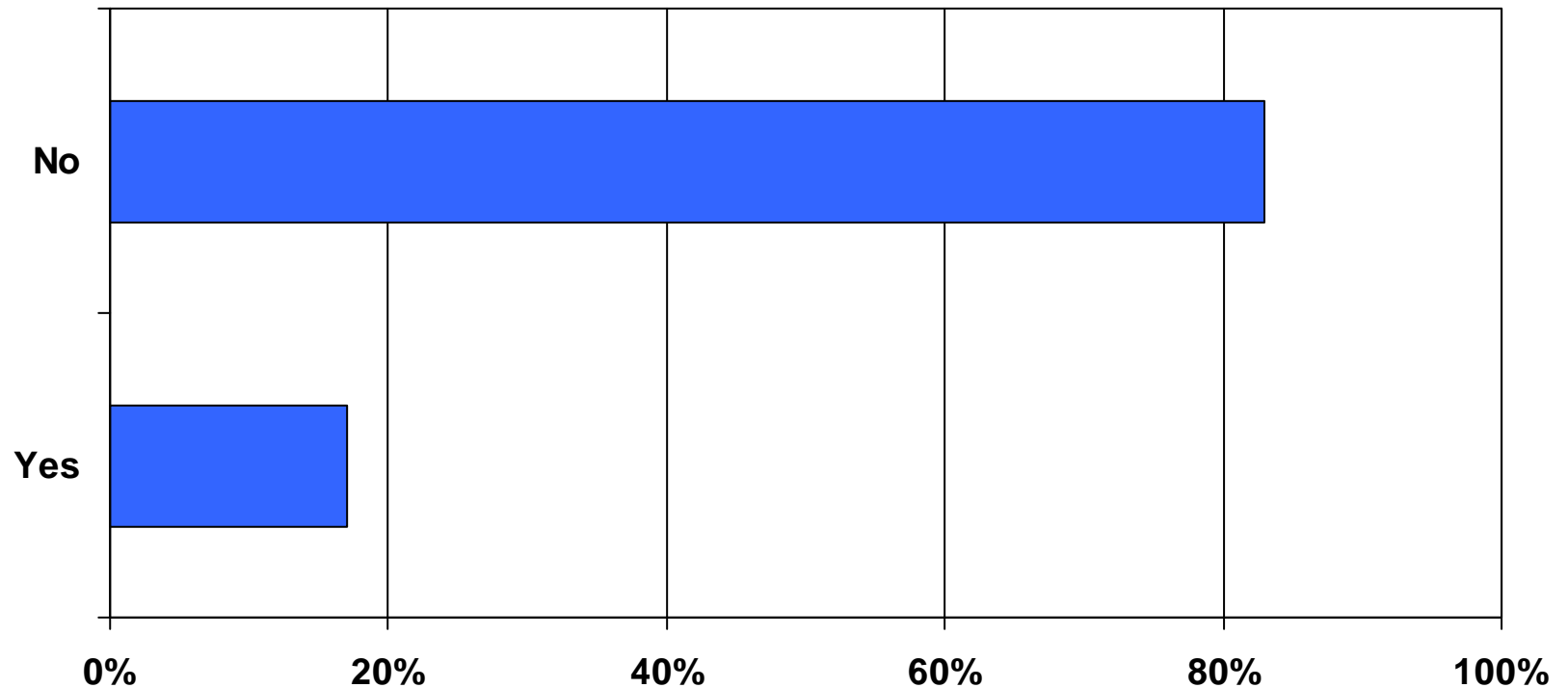
This survey contained a “survey within a survey” developed in partnership with the UNC Kenan-Flagler Business School concerning Fair Value adoption and its potential impacts

## Fair Value

- Despite recent criticisms, only 17% of respondents felt that fair value accounting was a major cause of the subprime crisis
- However, only 35% felt that fair value accounting facilitated investors' understanding of banks aggressive lending practices
- 33% of respondents felt that Level 1 fair values (market exists for identical assets or liabilities) should be recognized, while 37% felt they should be disclosed, but not recognized
- Major concerns with Level 1 fair value accounting were excess volatility (39% of respondents) and market prices not reflecting economic value (34%)
- Only 15% of respondents felt that Level 2 fair values (market exists for similar assets or liabilities) should be recognized and 7% felt that Level 3 fair values (valuation based on models) should be recognized

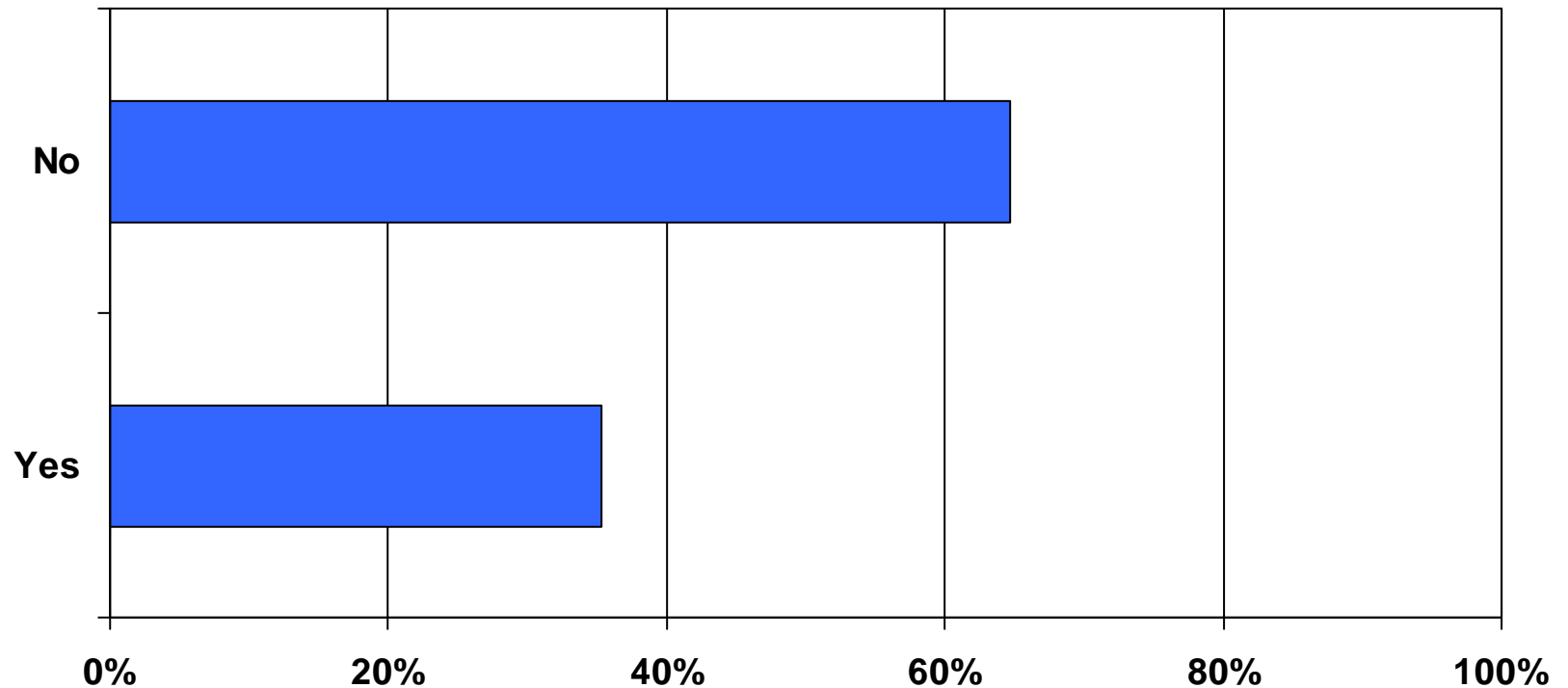
## Fair Value & the Subprime Mortgage Crisis

Fair Value accounting has received a good deal of attention given the recent stresses on valuations in the capital markets. SFAS 157 addresses fair value measurements. Was fair value accounting a major cause of the subprime mortgage crisis?



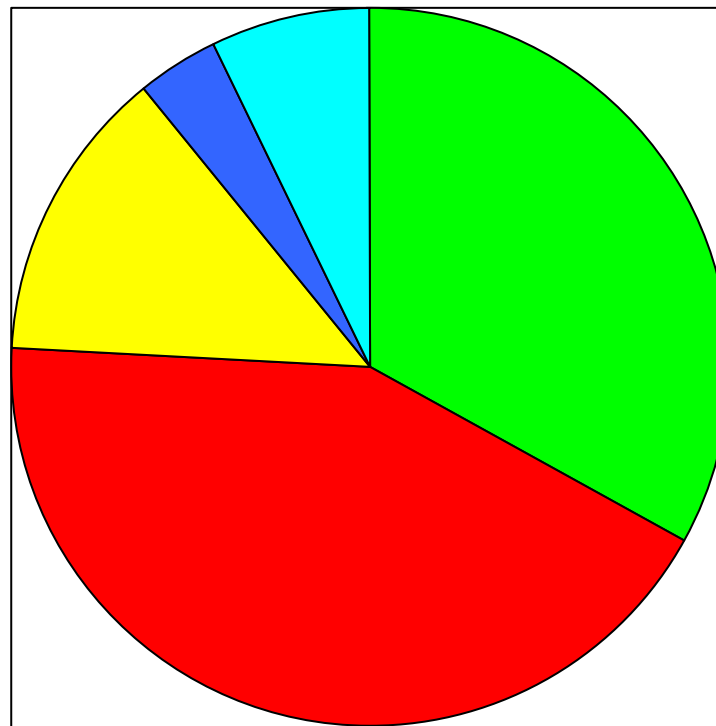
## Fair Value & Public Realization of Aggressive Lending Practices

Did fair value accounting facilitate the public's realization of banks' aggressive lending practices?



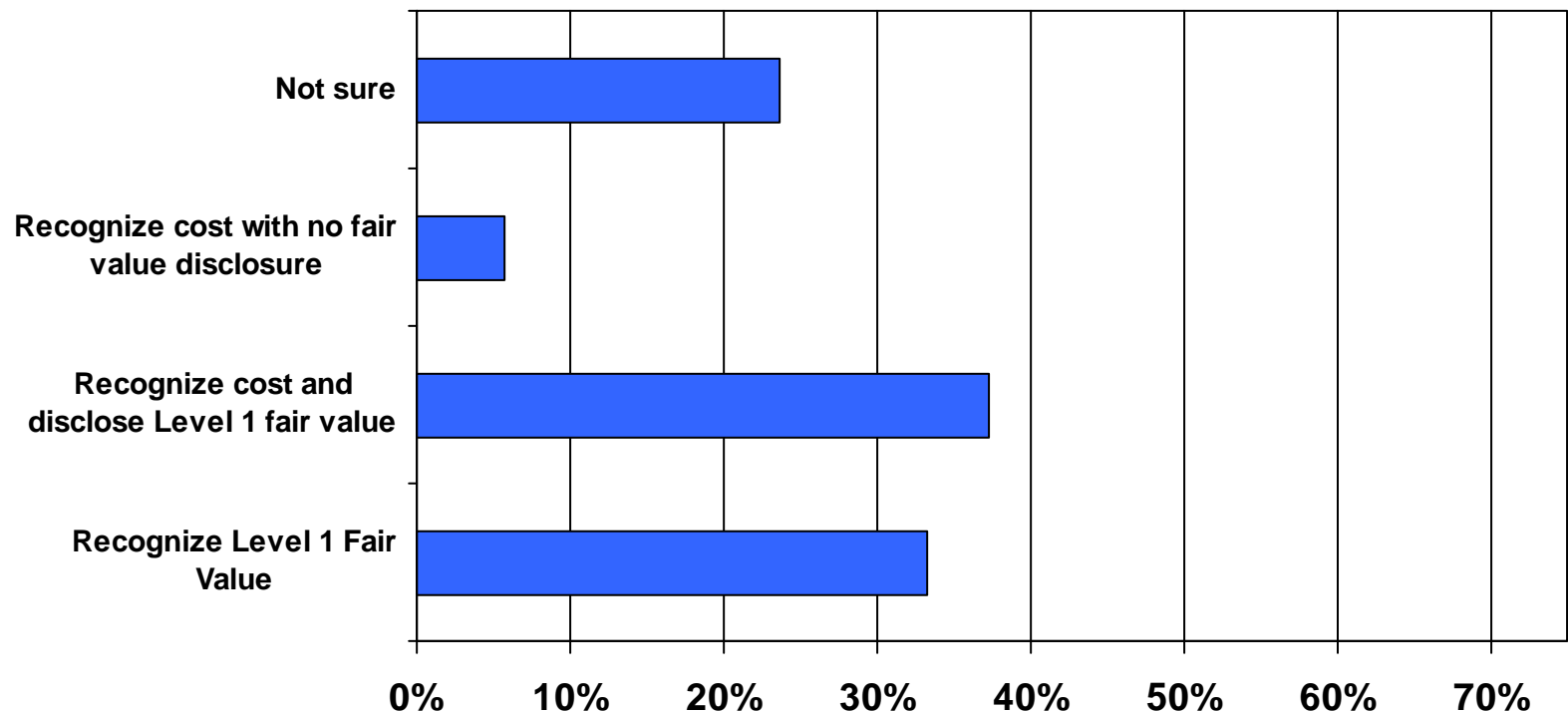
## Fair Value Impact on Your Financial Statements

How large of an impact do you expect fair value accounting to have on your financial statements?



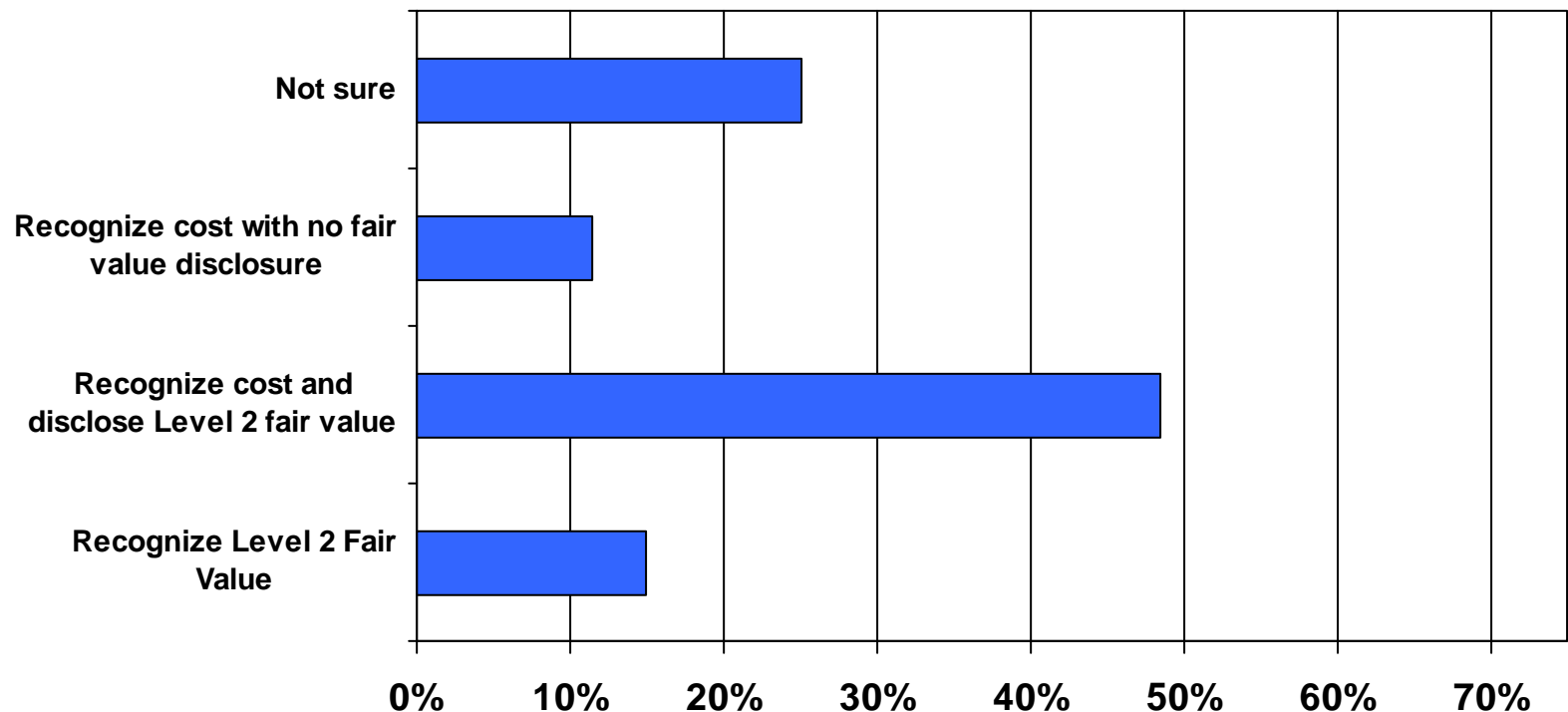
## Accounting for Level 1 Fair Value Measures

SFAS 157 describes a hierarchy of three levels of fair value measurements. Level 1 refers to situations in which active markets exist for identical assets and liabilities. How do you think assets or liabilities with Level 1 fair value measures should be accounted for?



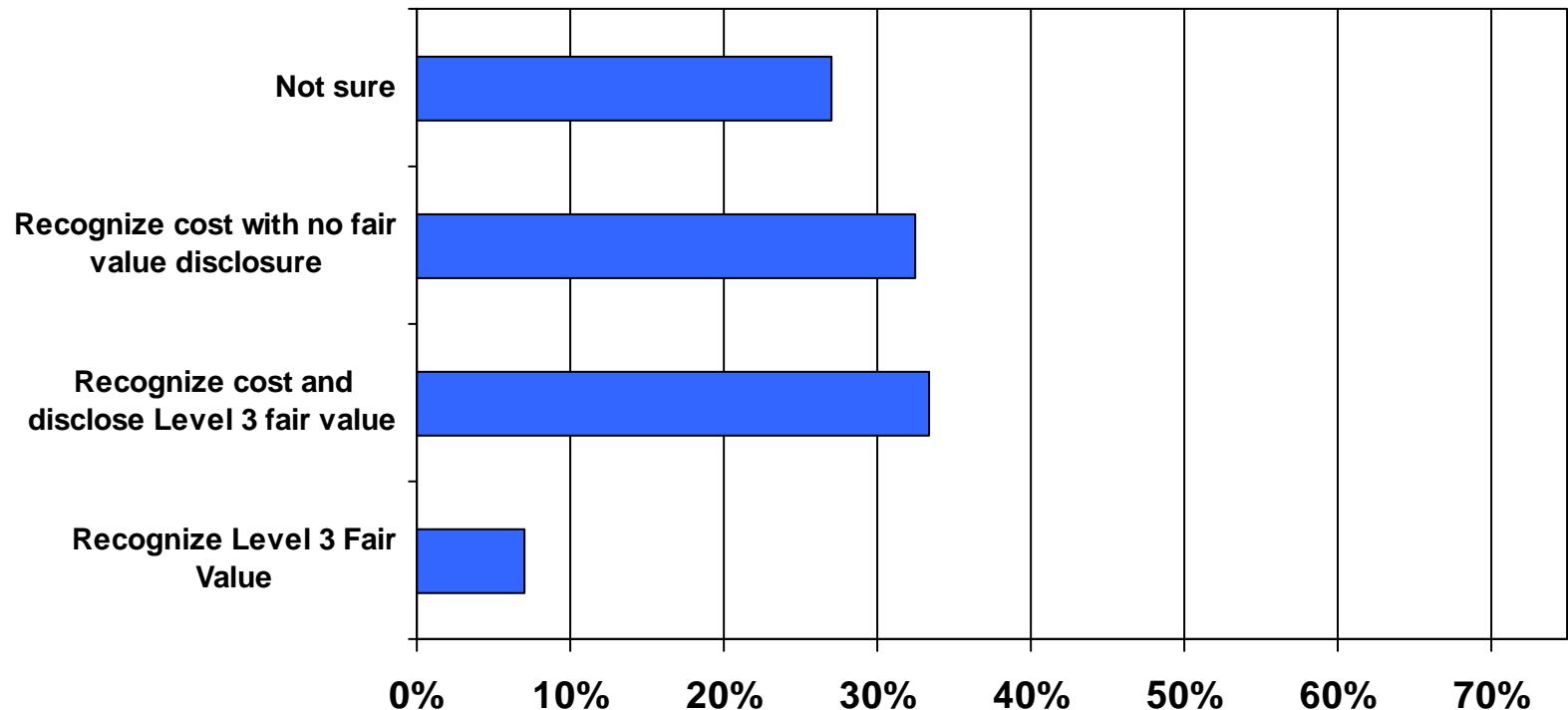
## Accounting for Level 2 Fair Value Measures

Level 2 refers to situations in which no active market exist for similar assets and valuation techniques must be applied based on models using external inputs. How do you think assets or liabilities with Level 3 fair value measures should be accounted for?



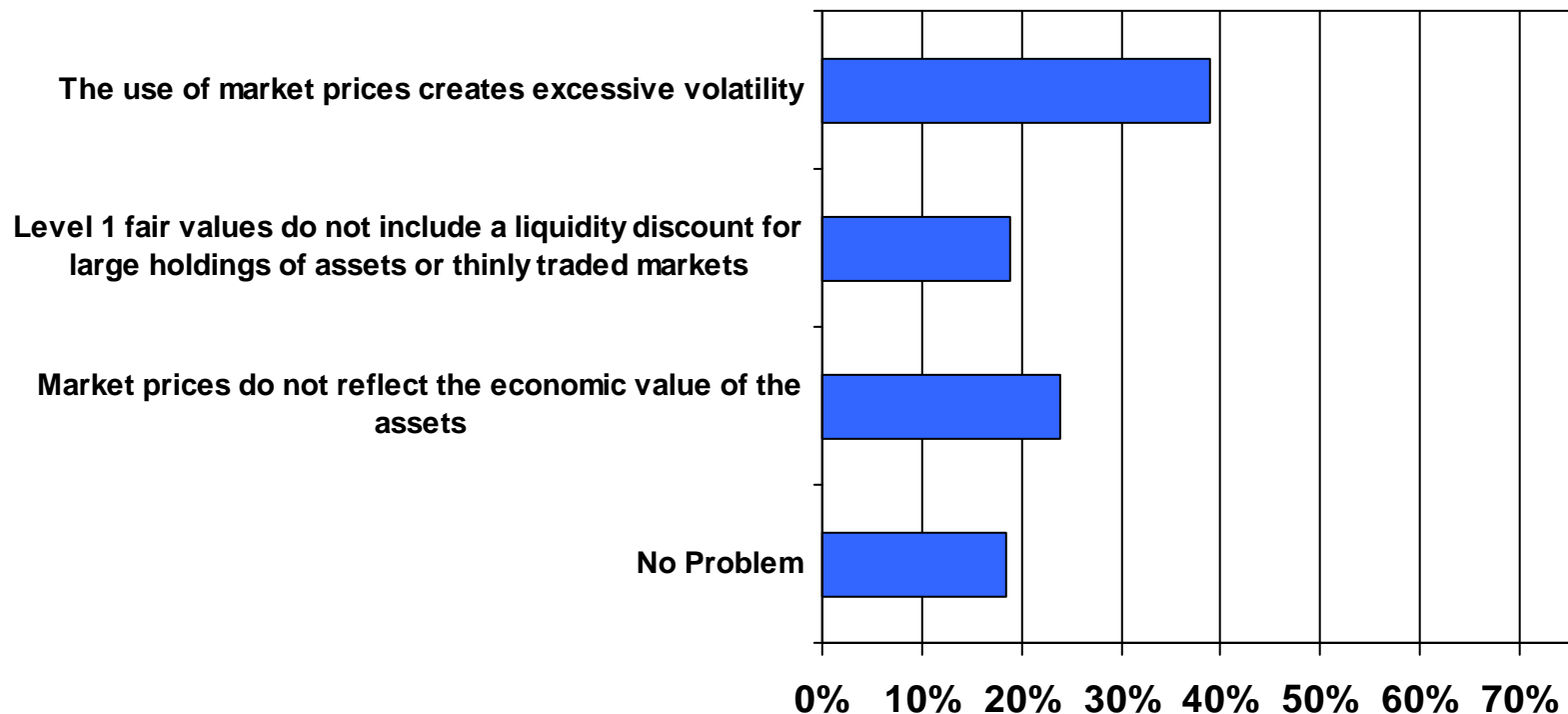
## Accounting for Level 3 Fair Value Measures

Level 3 refers to situations in which no active market exist for similar assets and valuation techniques must be applied based on models using external inputs. How do you think assets or liabilities with Level 3 fair value measures should be accounted for?



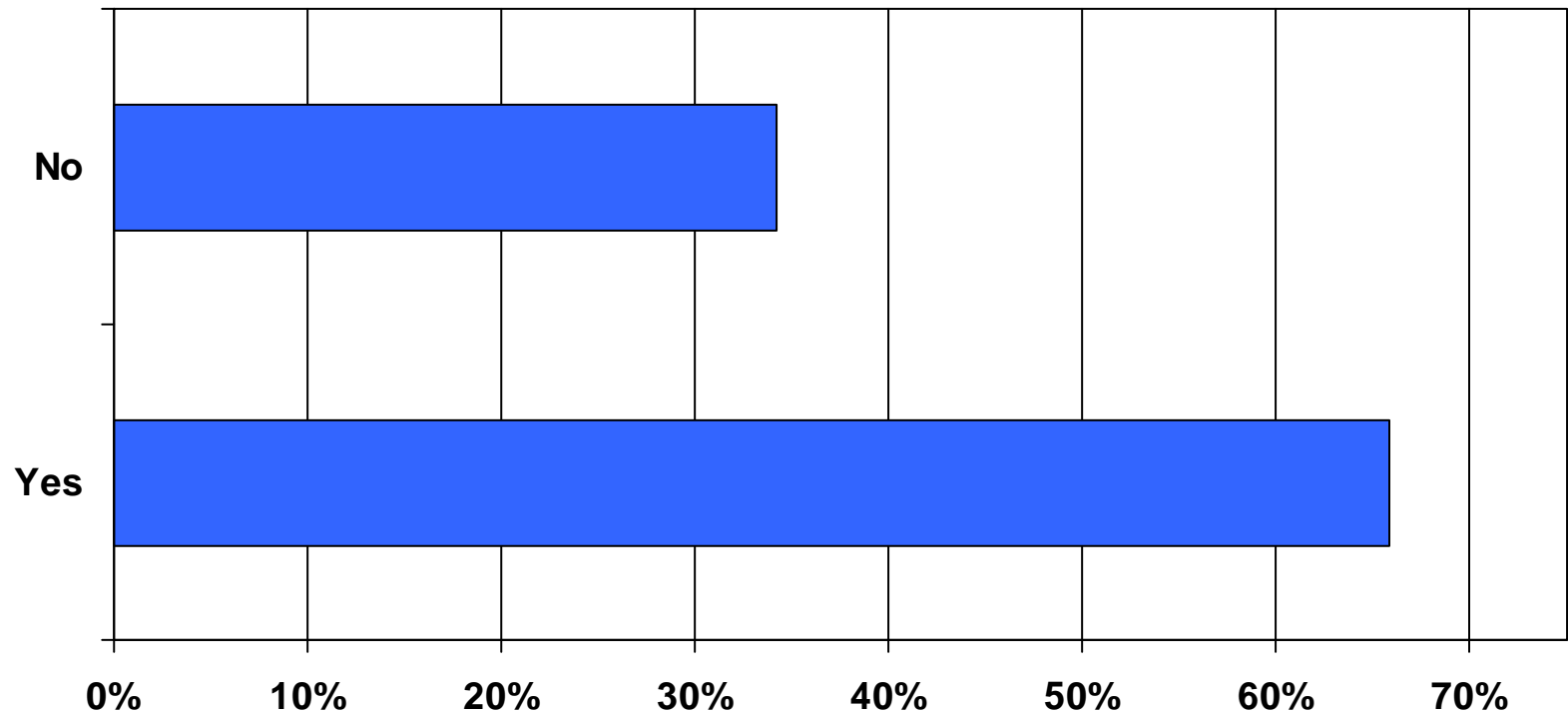
## Biggest Problem with Level 1 Fair Value Asset Measures

What is the biggest problem with Level 1 fair value asset measures?



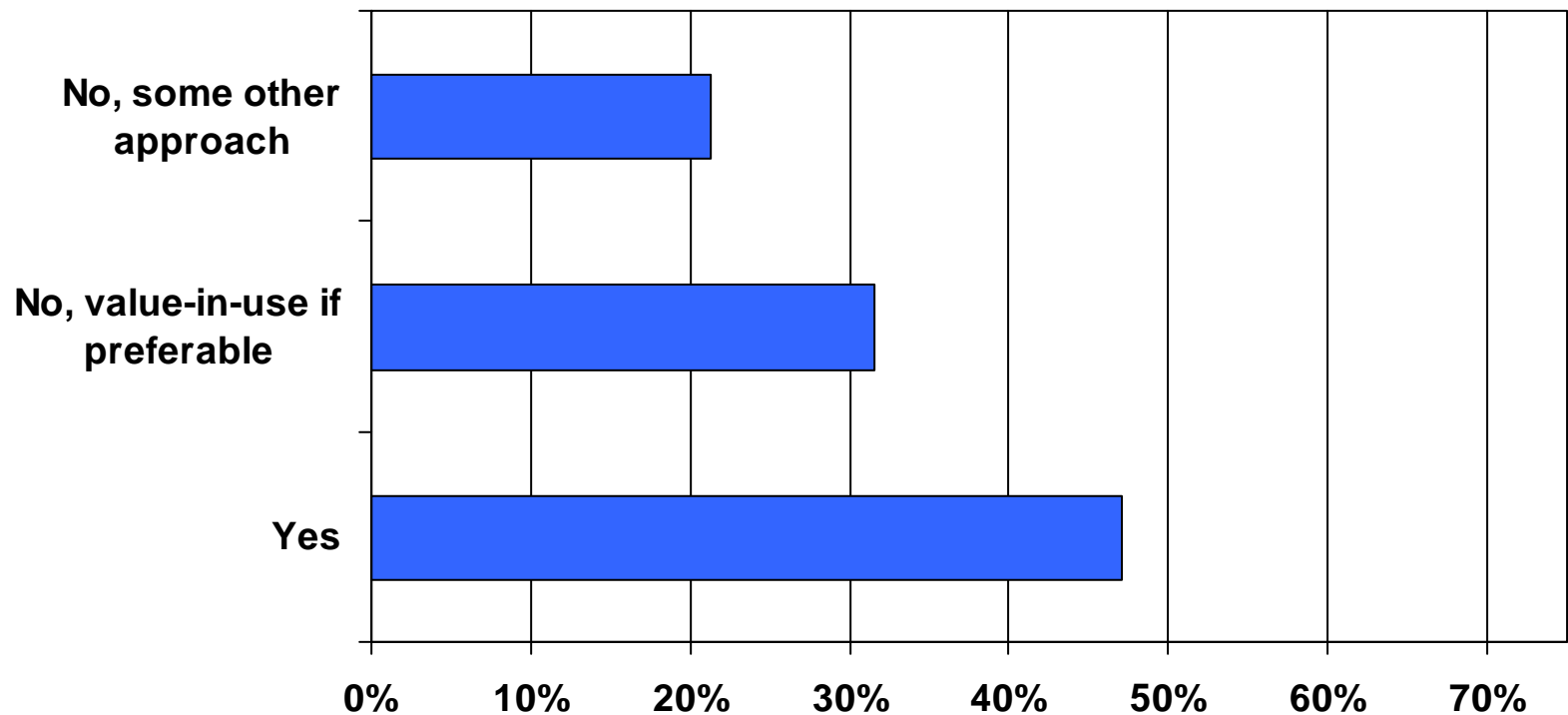
## Liquidity Discount for Level 1 Fair Values

Should Level 1 fair values include a liquidity discount for large holdings of assets or thinly traded markets?



## Exit Price Notion of Fair Values

SFAS requires the use of exit prices, the price that would be received to sell an asset, or paid to transfer a liability, rather than entry prices. Do you agree with the exit price notion of fair values?



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**May 2008**

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