

AICPA
Business and Industry
Economic Outlook Survey
4Q 2008

Detailed Survey Results

Survey Background

- Conducted between Nov 5, 2008 and Nov 17, 2008
- Quarterly survey
- CPA decision makers (primarily CFOs, CEOs & Controllers)
- AICPA members in Business & Industry only
- 1751 total responses; 1606 qualified responses
- Partnership of AICPA Business, Industry & Government Team and UNC Kenan-Flagler Business School

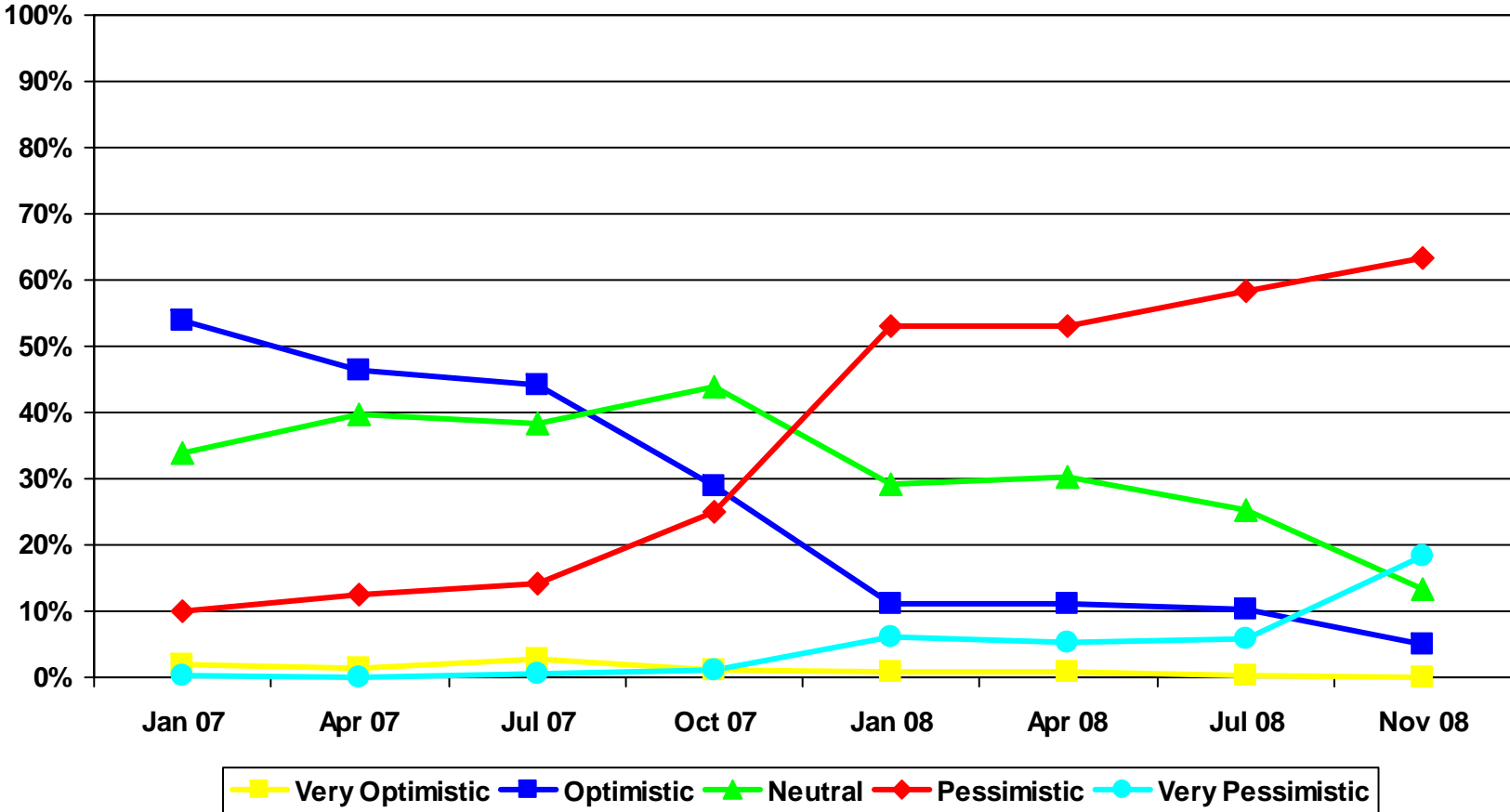
US Economy

- **Pessimism about the outlook for the US economy is at its highest point yet**
 - 82% of respondents indicated they were pessimistic or very pessimistic
 - 18% of respondents indicated they were very pessimistic up from 6% in 3Q
 - Only 5% were optimistic
- **Pessimism was uniform across all industries**
- **Most respondents don't expect the economy to begin to improve until the 2nd half of 2009 or 1st half of 2010**
- **Even so the majority (54%) do not favor a second economic stimulus package. This was down from 73% who felt that way in July 2008.**

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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.

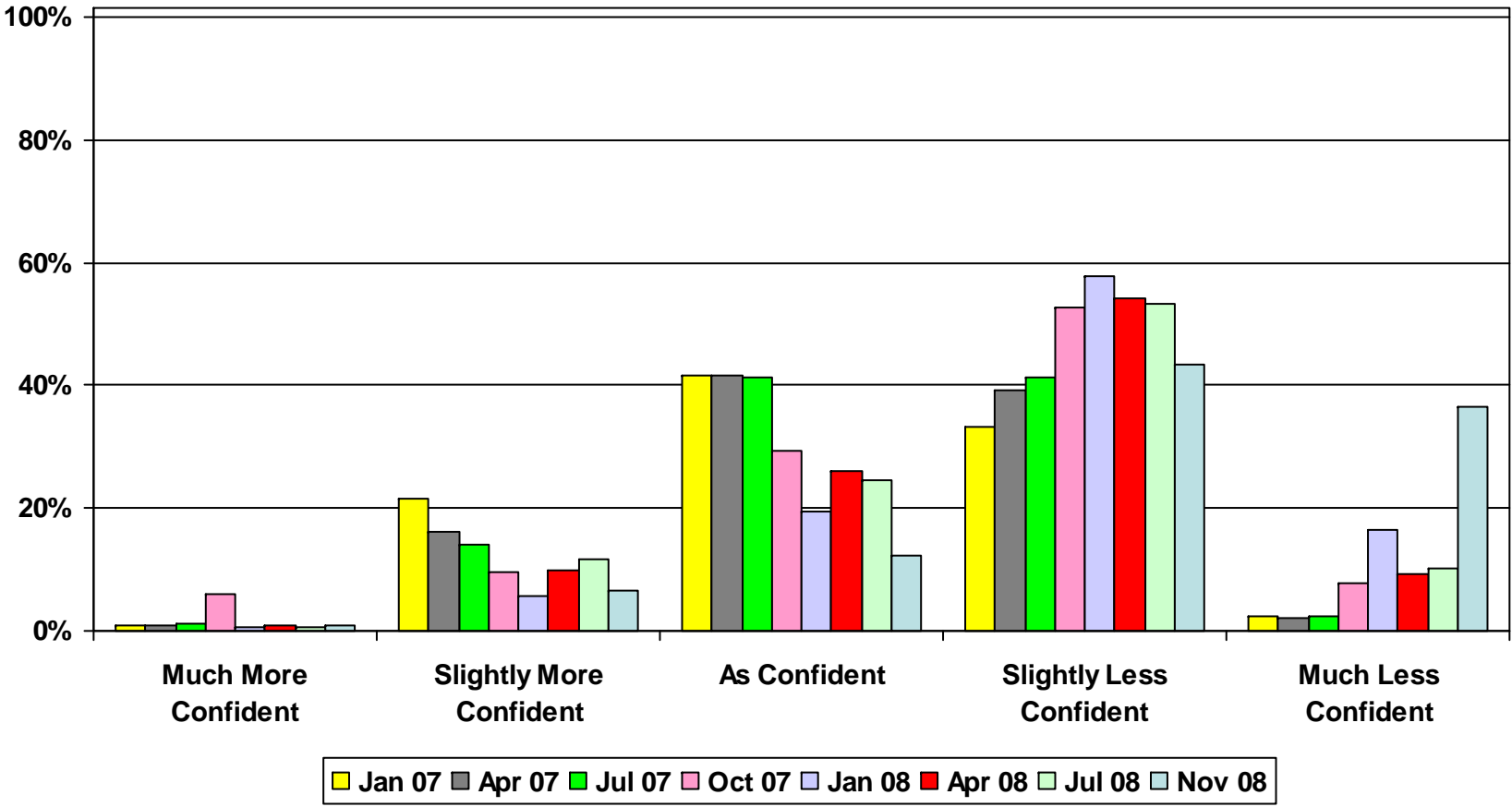


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Change in View US Economic Outlook

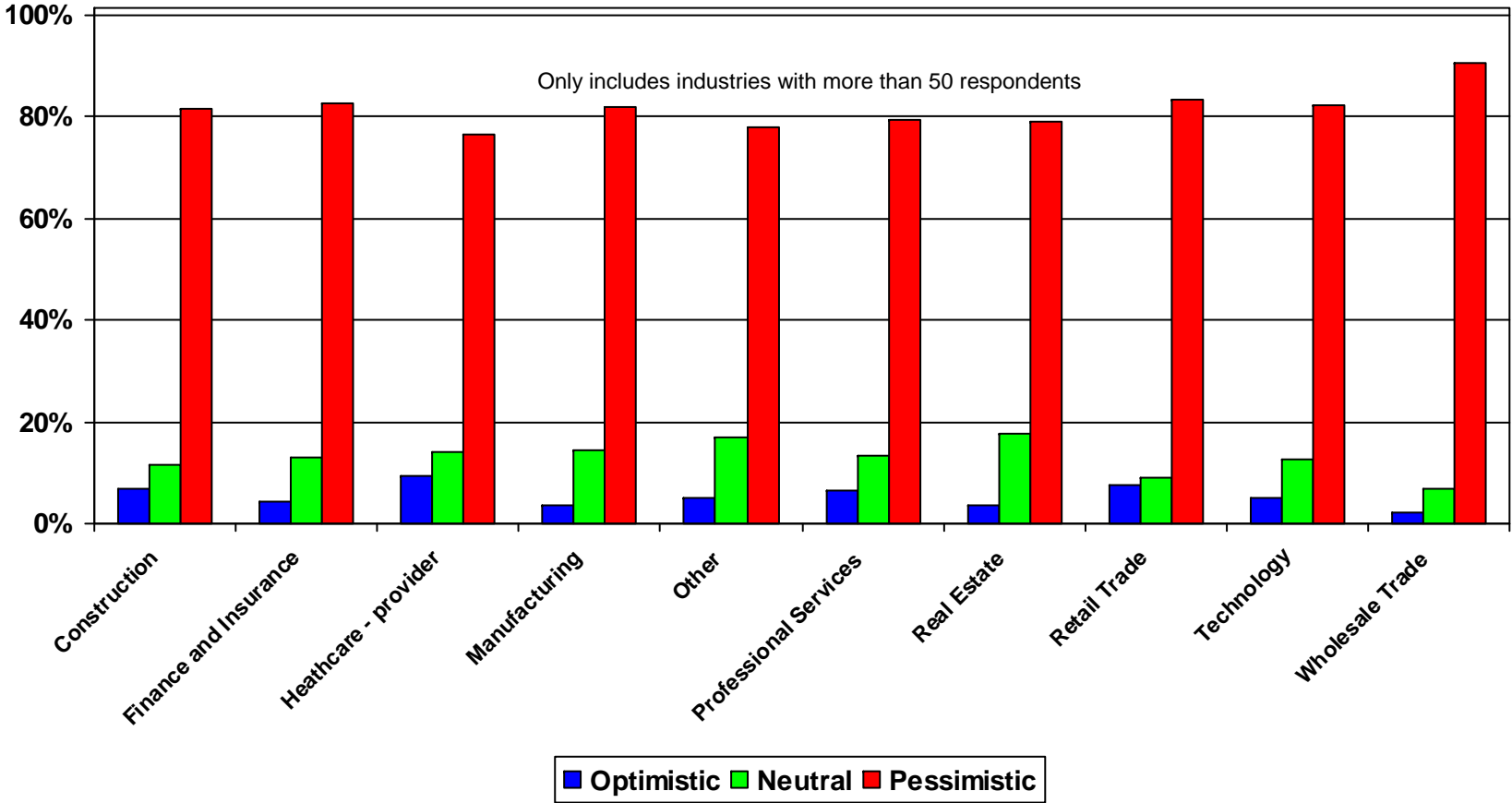
Please how your view has changed from the previous twelve month period for the economic outlook for the US for the next 12 months.



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Economic Outlook for US by Industry

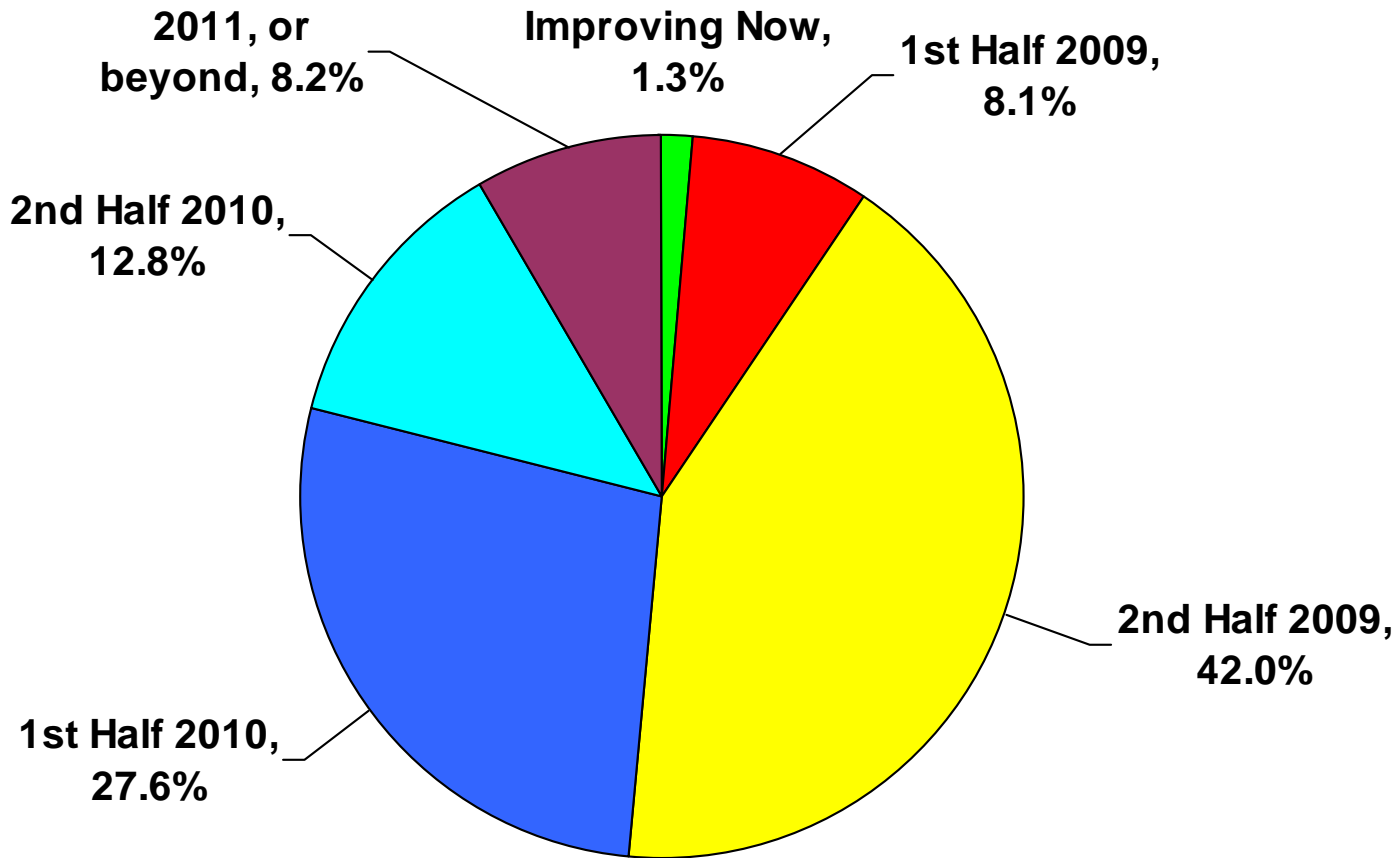
Please select the rating that best describes your view for the economic outlook for the US for the next 12 months.



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When will the US economy improve?

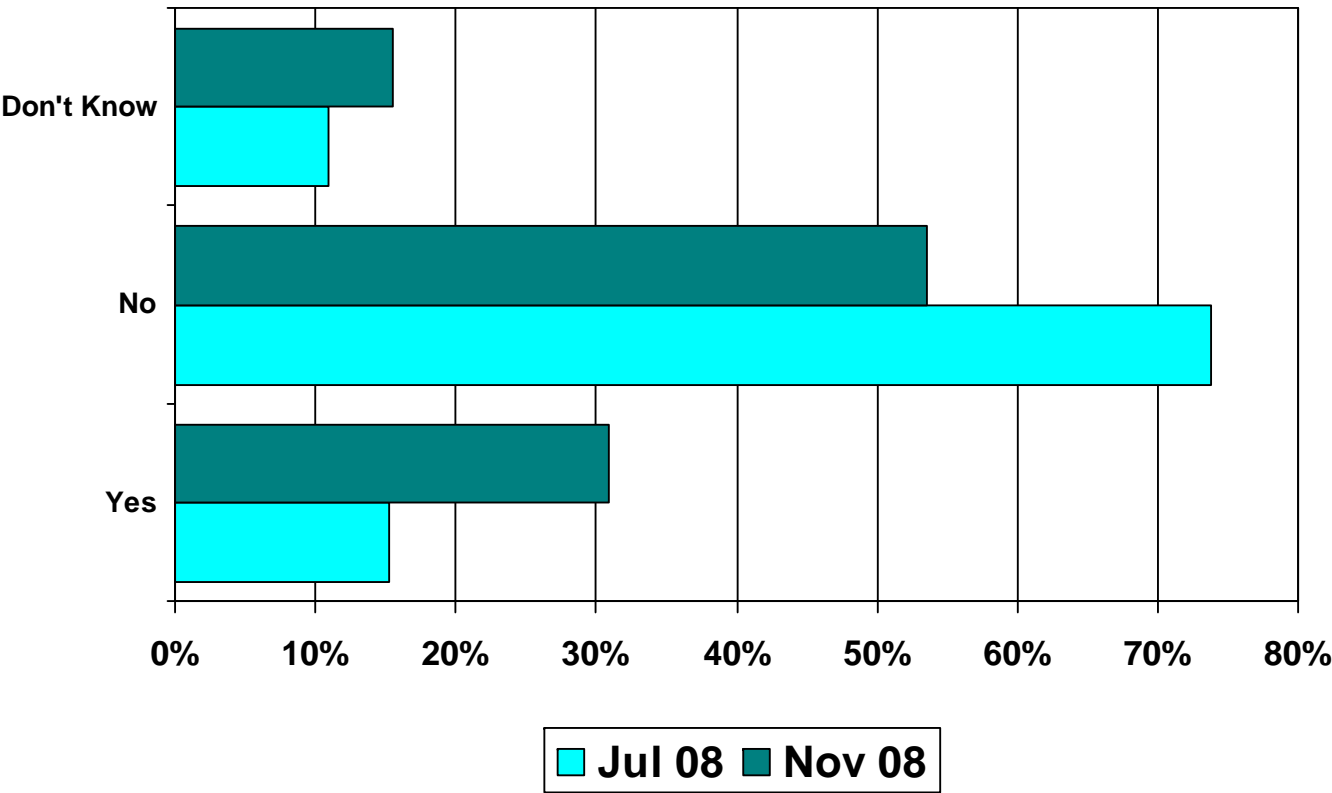
When do you think the U.S. economy will begin to improve?



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Economic Stimulus

Do you think Congress should pass a second economic stimulus package to boost the economy?



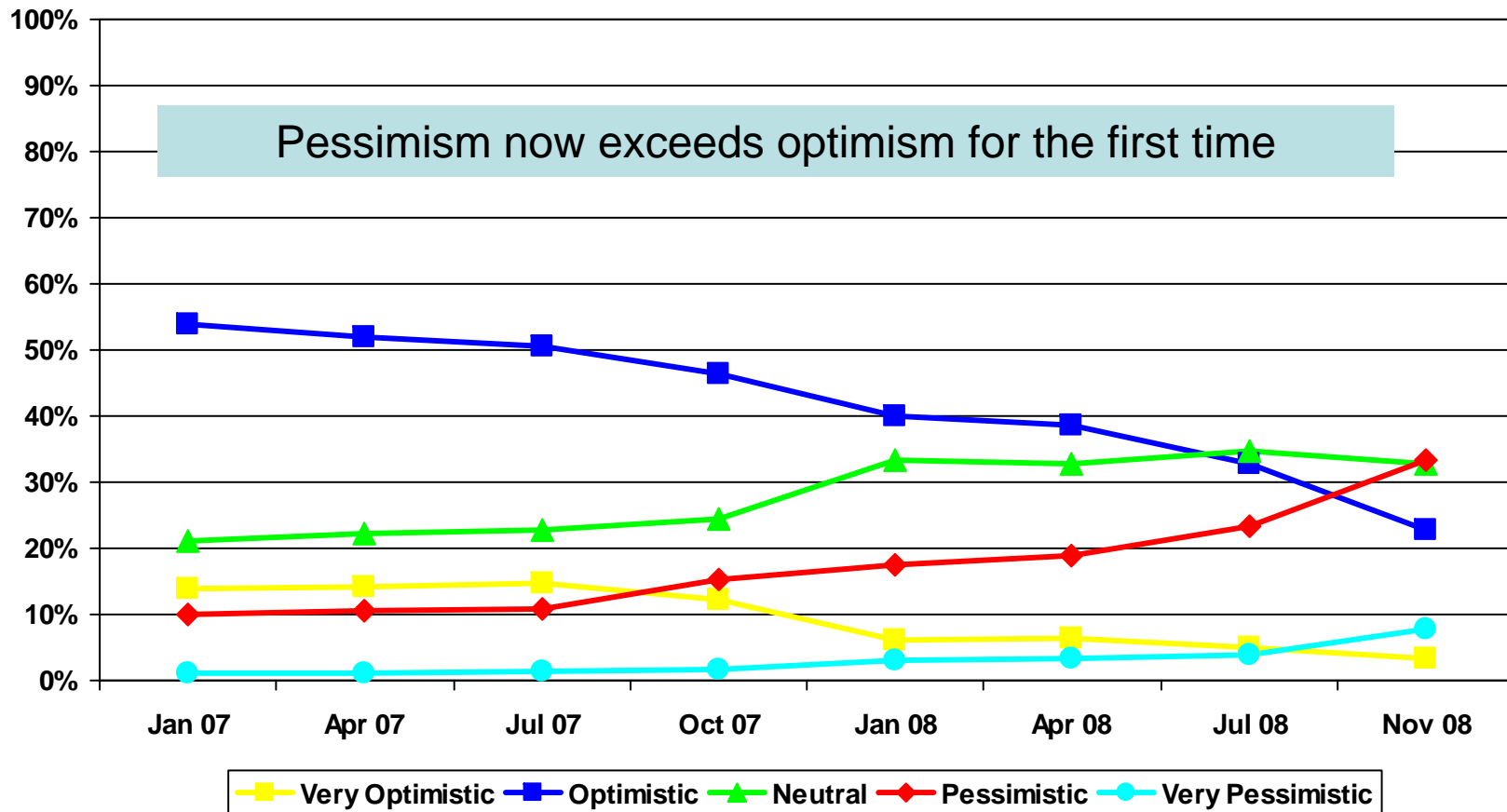
Your Own Organization

- **For the first time pessimists outnumbered optimists when asked about their own organizations.**
 - Forty-one percent were pessimistic vs 26% optimistic
 - This still makes respondents more optimistic about their own organizations than about the US economy as a whole
- **Professional Services was the only industry where optimists outnumbered pessimists and even there the difference was small**
 - Real Estate had the most pessimists
- **Pessimism supported by the fact that more organizations expect their businesses to contract rather than expand**

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Economic Outlook for Your Own Organization

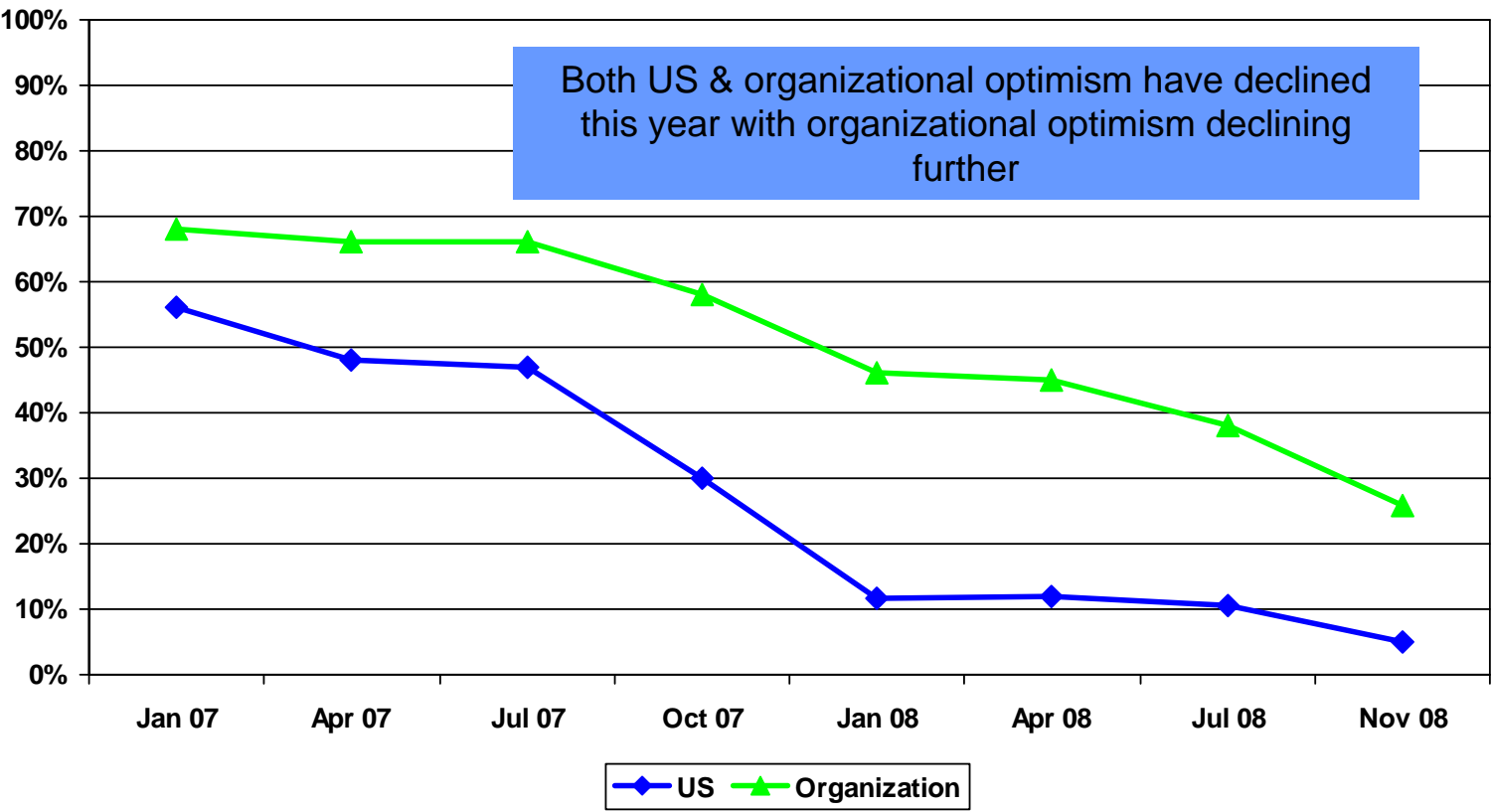
Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months..



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Economic Outlook Comparison US vs Organization based on total optimism

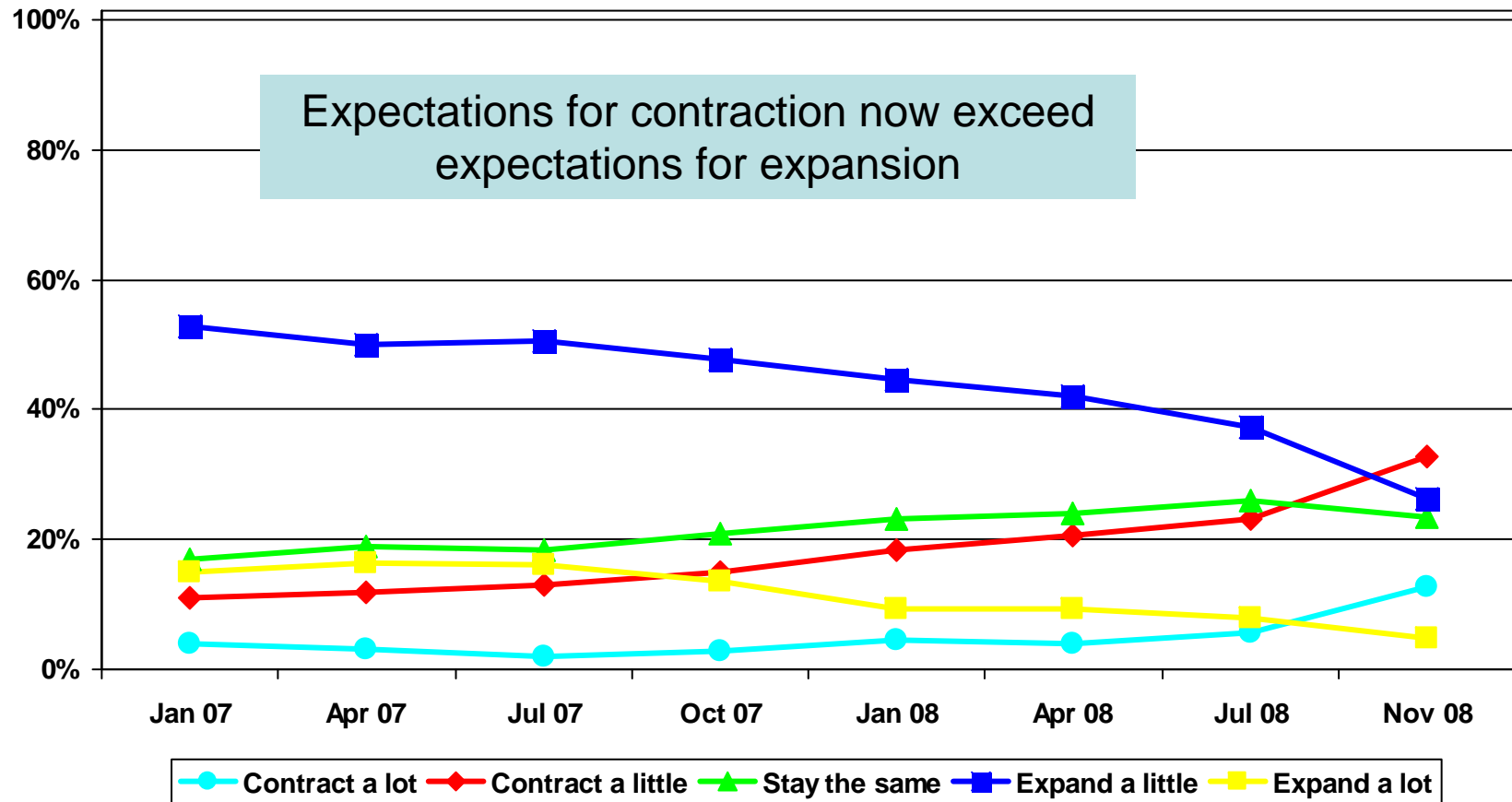
Please select the rating that best describes your view for the economic outlook for ??? for the next 12 months..



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Expansion/Contraction of Your Own Organization

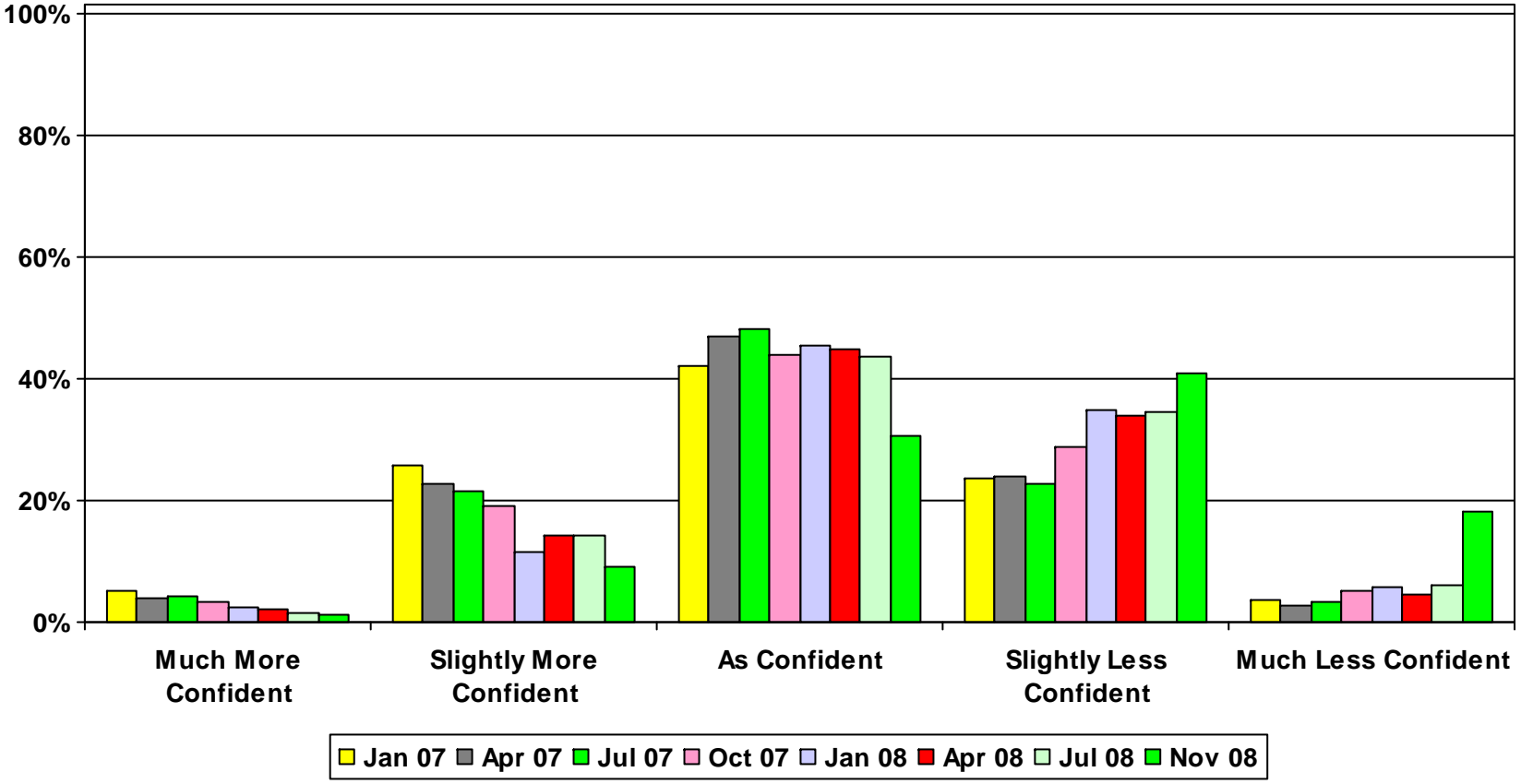
Please indicate whether you expect your business to expand or contract over the next 12 months.



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Change in View -- Outlook for your Organization

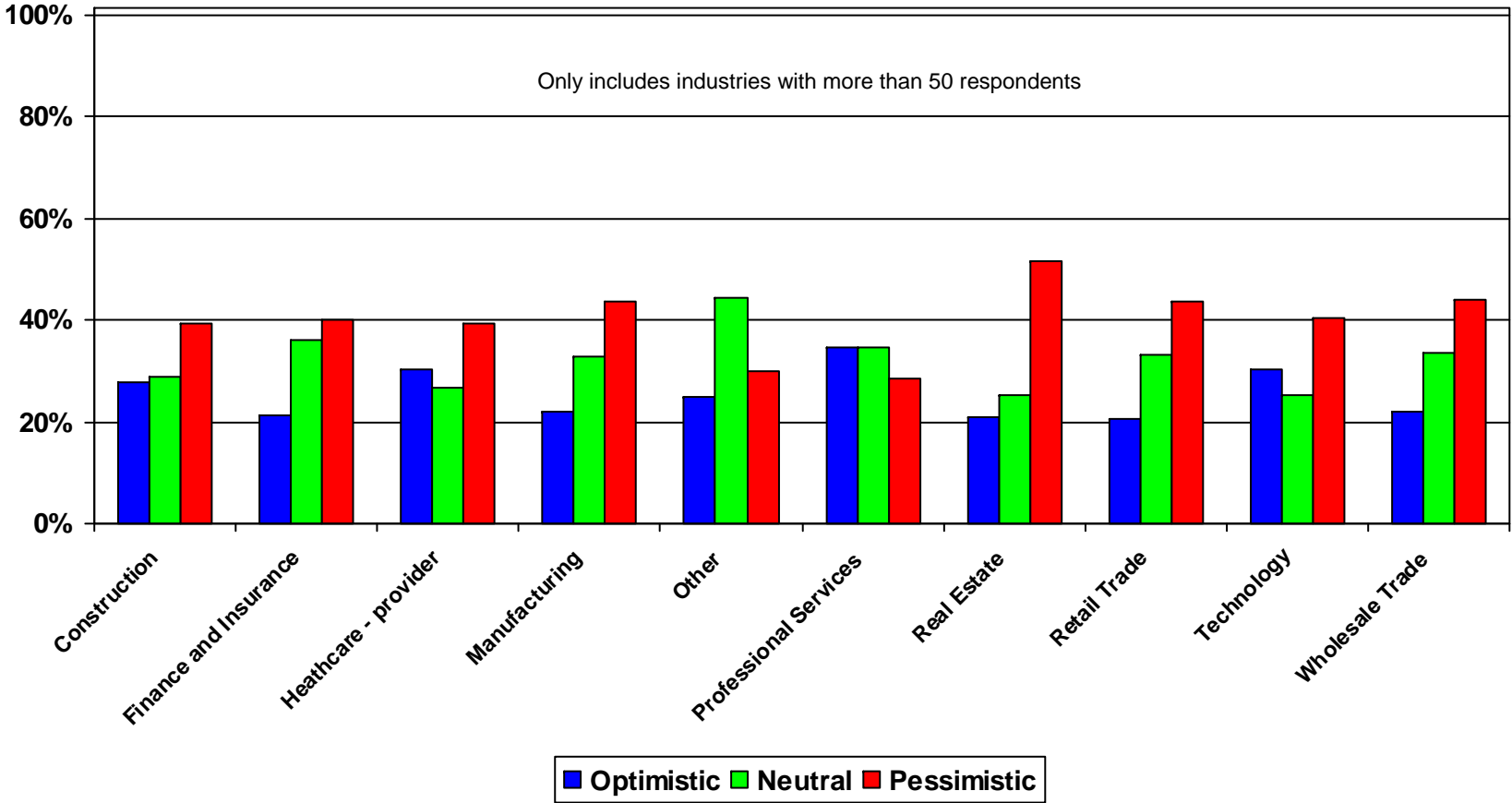
Please how your view has changed from the previous twelve month period for the economic outlook for your organization for the next 12 months.



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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.



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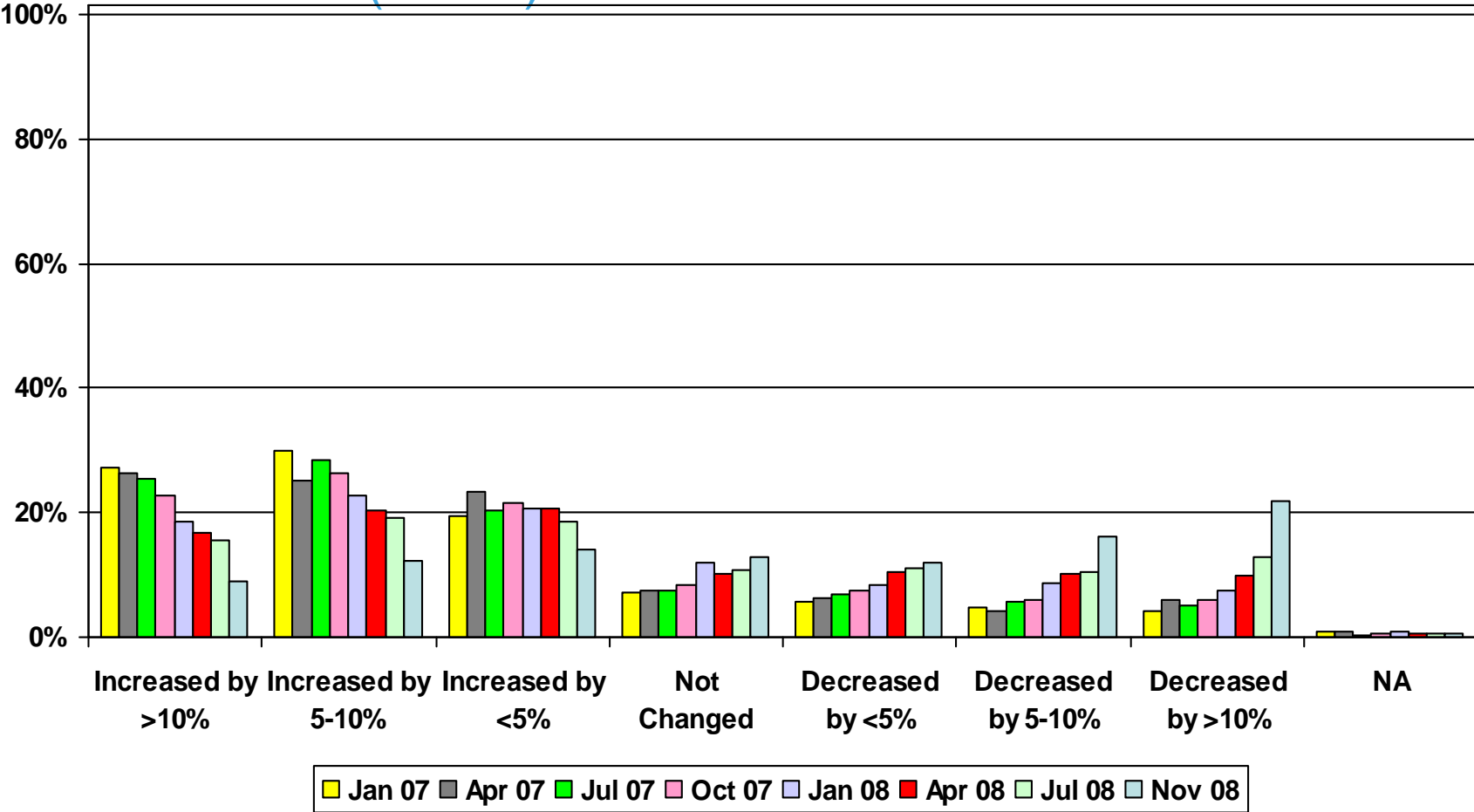
Key Performance Indicators

- **Expectations for revenue and profit have declined precipitously**
 - The percentage of respondents expecting revenue decreases (39%) not exceed those expecting revenue increases (35%).
 - Expectations for profit decreases are even higher with 55% expecting decreases, 25% expecting decreases of at least 10%
- **Employment prospects have dropped**
 - Last quarter 71% of respondents expect to maintain or increase the # of employees; this quarter only 57% expect to do so.
 - 22% expect employment decreases of more than 5%
 - Over 60% of Construction industry respondents and 40% of Manufacturing, Retail and Real Estate industry respondents expect employment decreases
 - Technology had the best prospects with the percentage expecting increases equaling the percentage expecting decreases

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Key Performance Indicators Total Revenue (Sales)

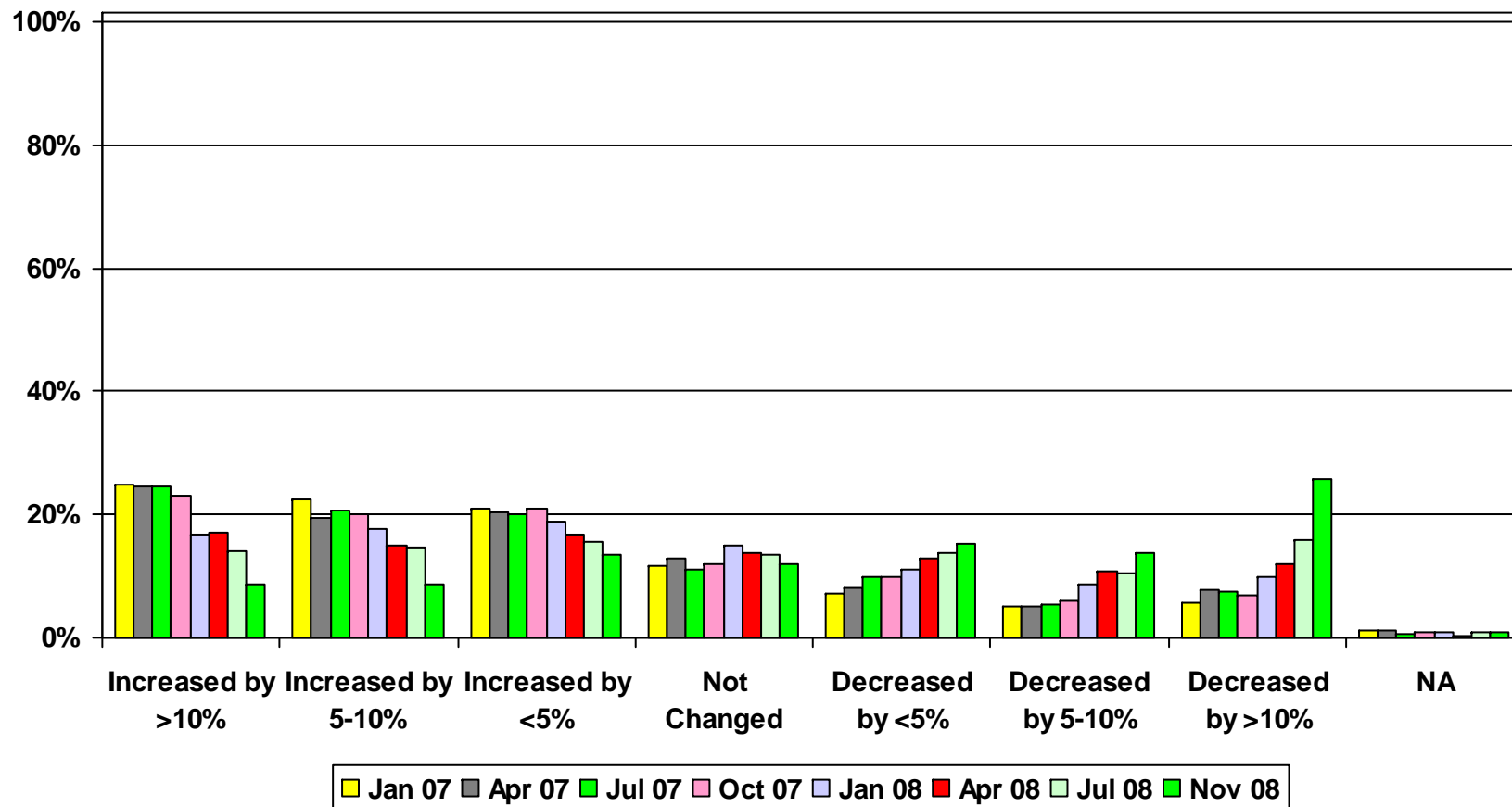
Thinking about the coming 12 months, please comment on the probably change for your organization for Total Revenue (Sales)



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Key Performance Indicators Total Profits (Net Income)

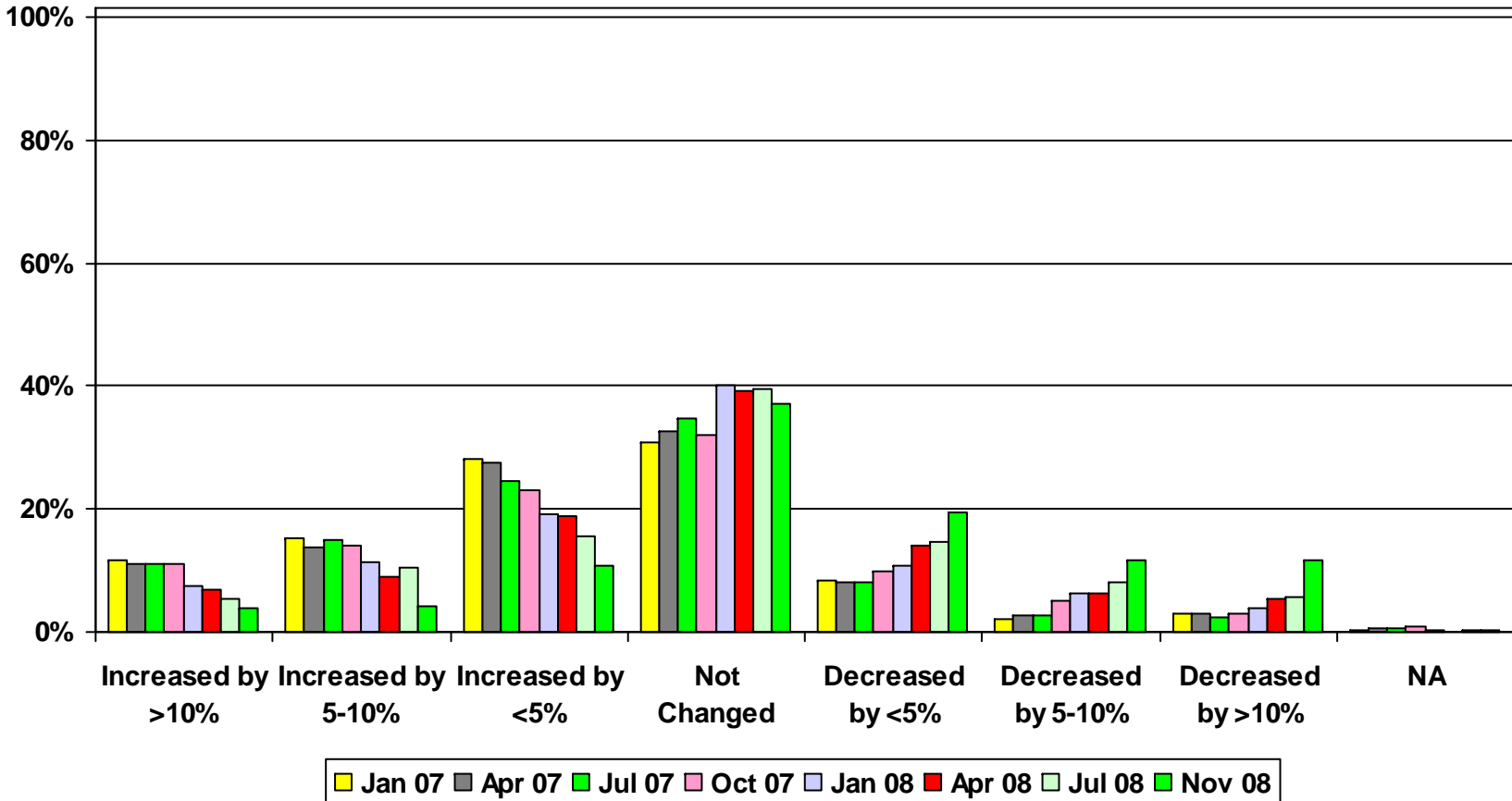
Thinking about the coming 12 months, please comment on the probable change for your organization for Total Profits (Net Income)



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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

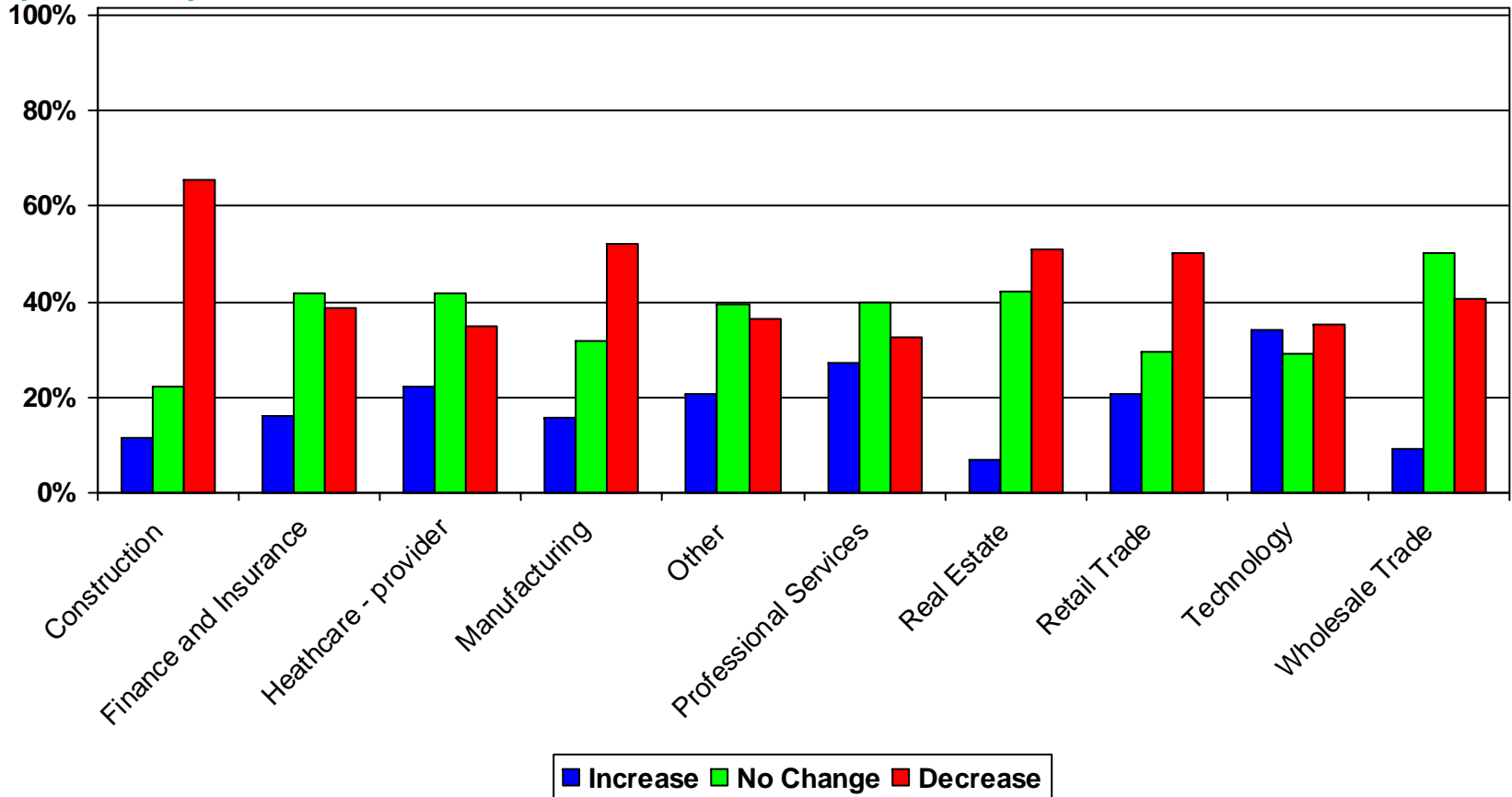


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Key Performance Indicators Number of Employees by industry

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



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Key Performance Indicators

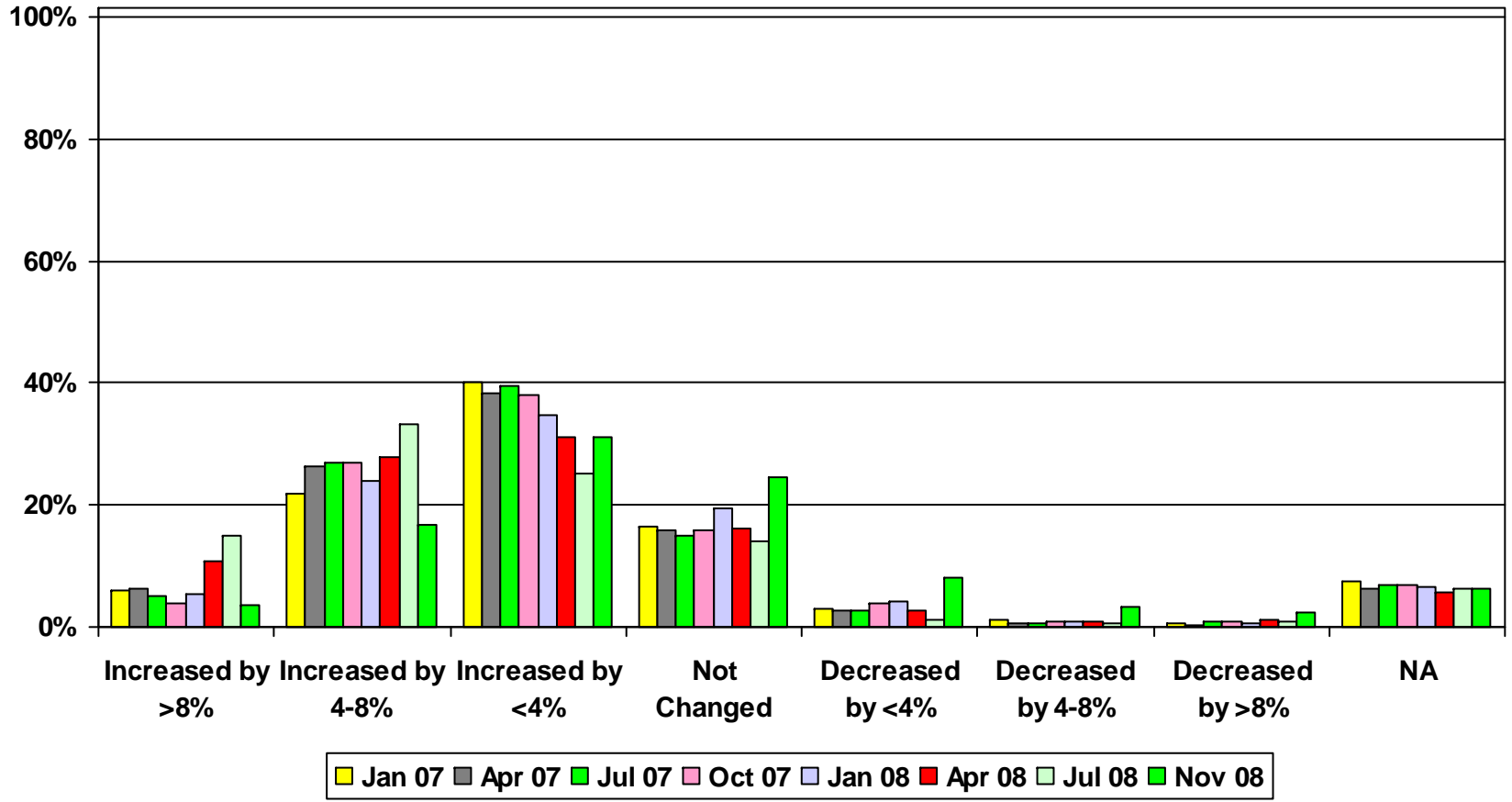
Pricing and Costs

- **Expectations for price increases have dropped somewhat this quarter**
 - Last quarter 73% of respondents expected input price increases; this quarter only 52% do
- **However expectations for prices charges have also declined**
- **Most organizations still expect to the average salary & benefits cost to increase**
- **Expectations for healthcare cost increases remain high but stable**

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Pricing & Costs Input Prices

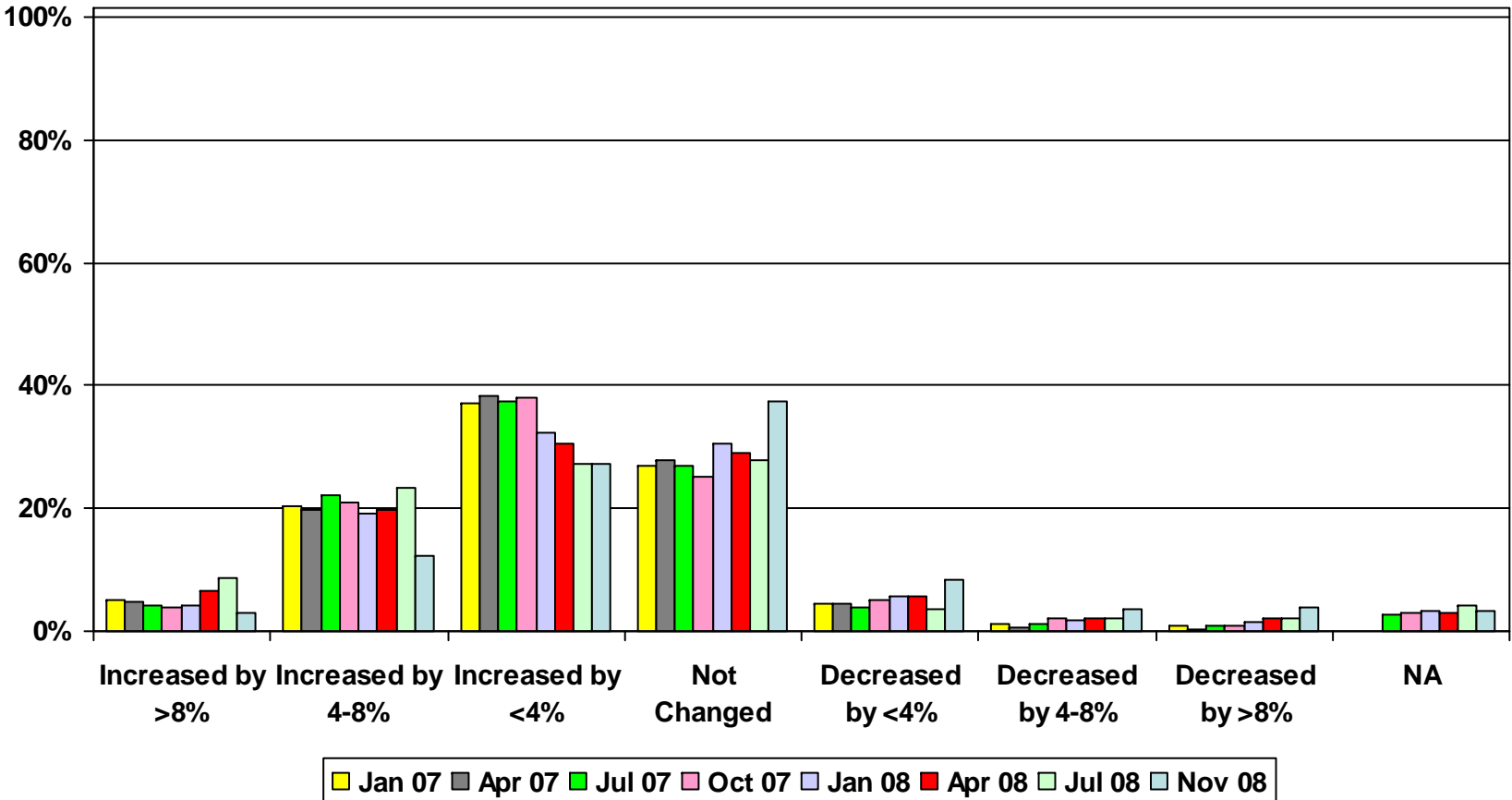
Thinking about the coming 12 months, please comment on the probable change for your organization for Input Prices



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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

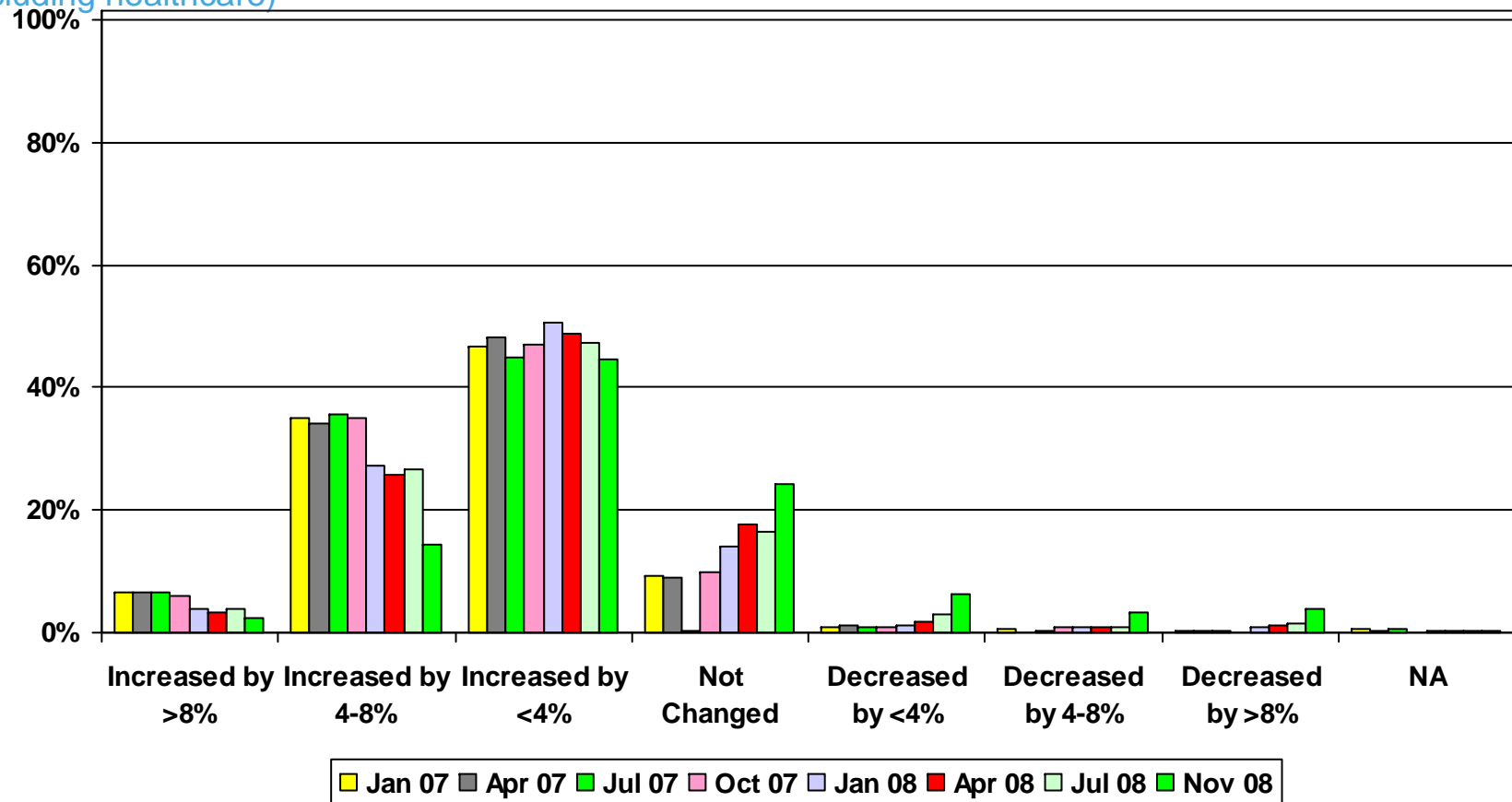


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Pricing & Costs Average total salary & benefits

(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)

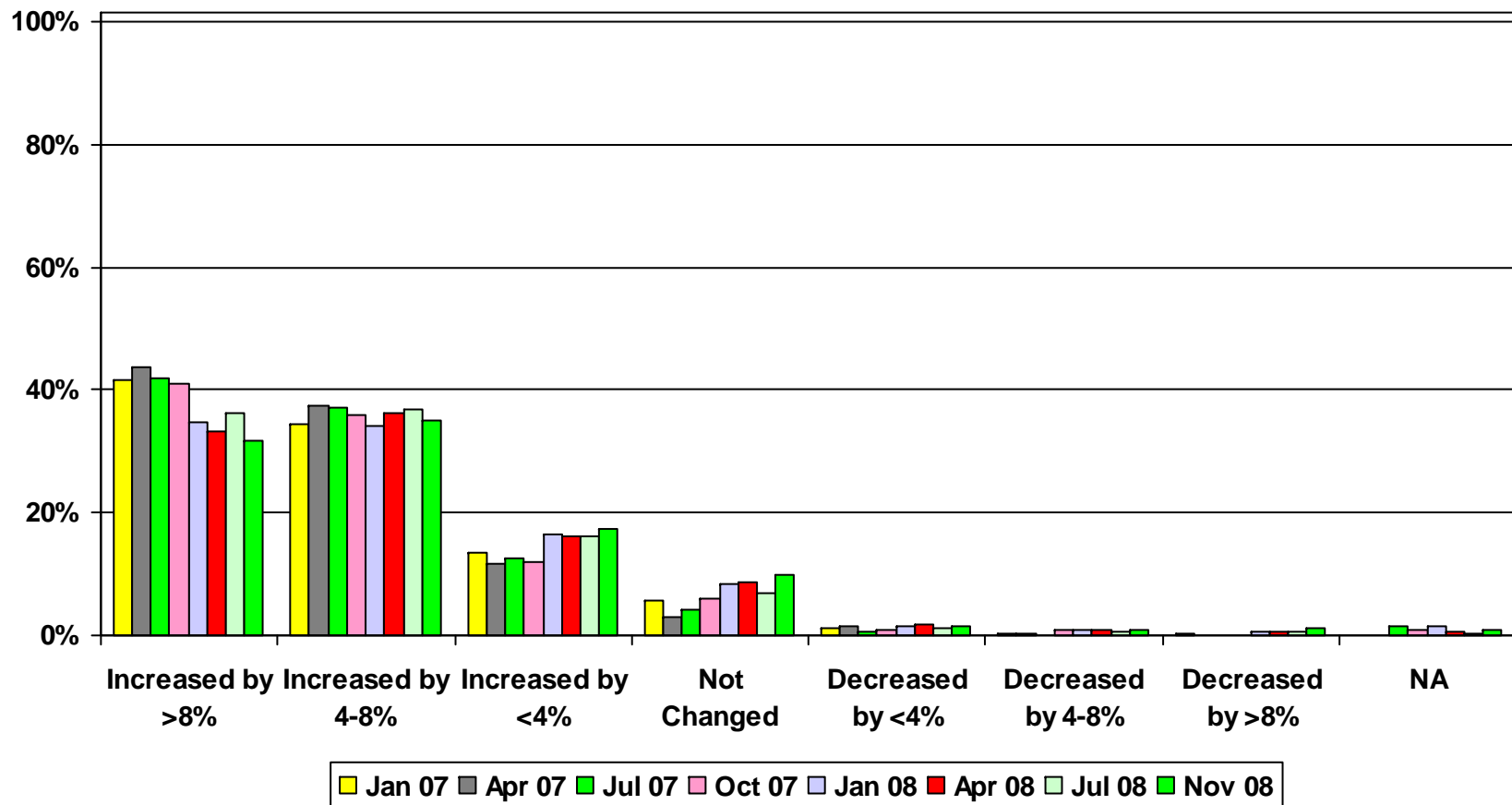


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Pricing & Costs Healthcare Costs

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



Key Performance Indicators

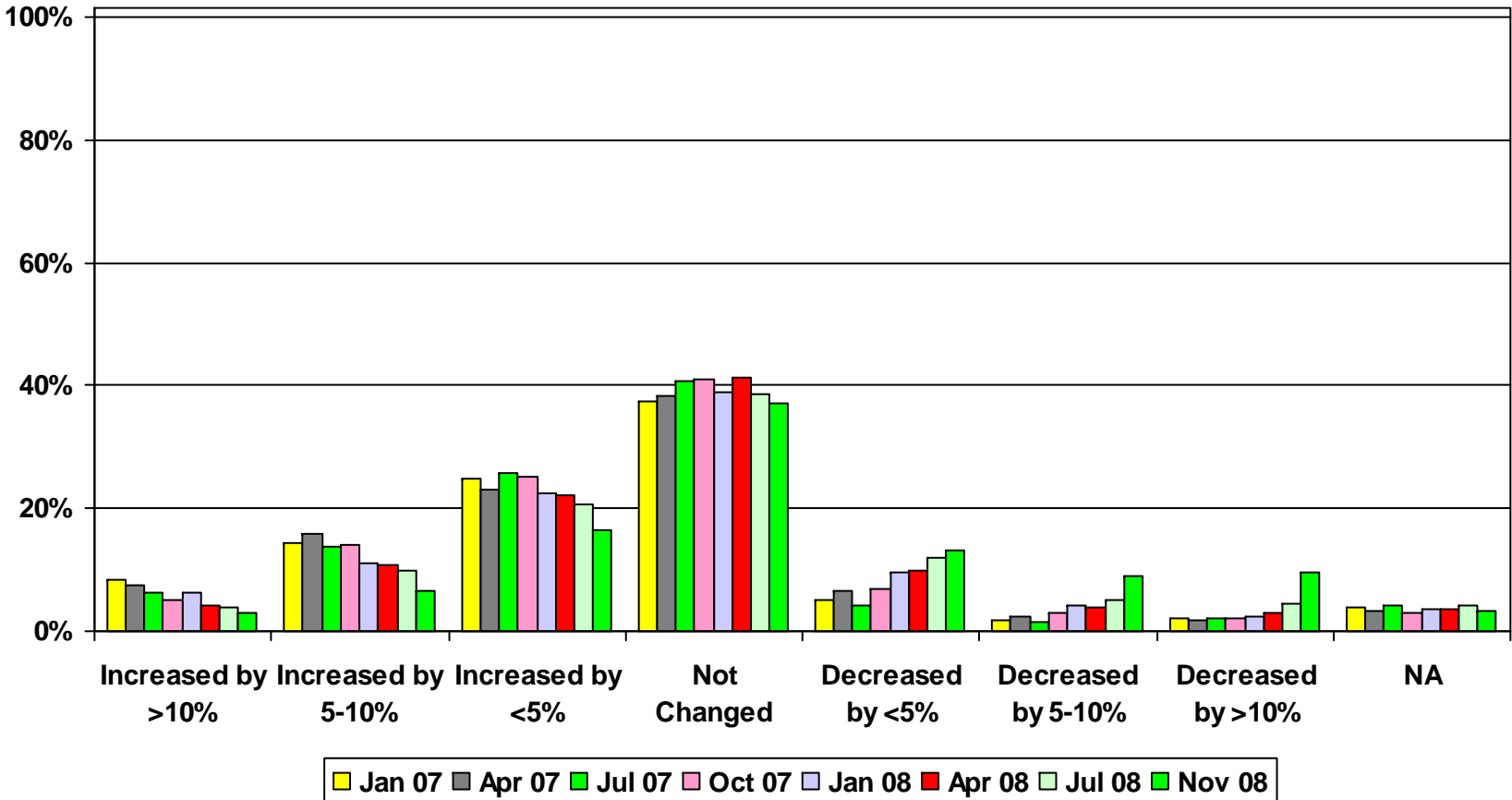
Spending Plans

- Spending plans have been trending down for the past year
 - Q to Q differences are more pronounced this quarter
 - Most respondents appear to be trying to hold the line on spending with neither increases nor decreases planned

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Spending Plans Advertising, Sales & Marketing

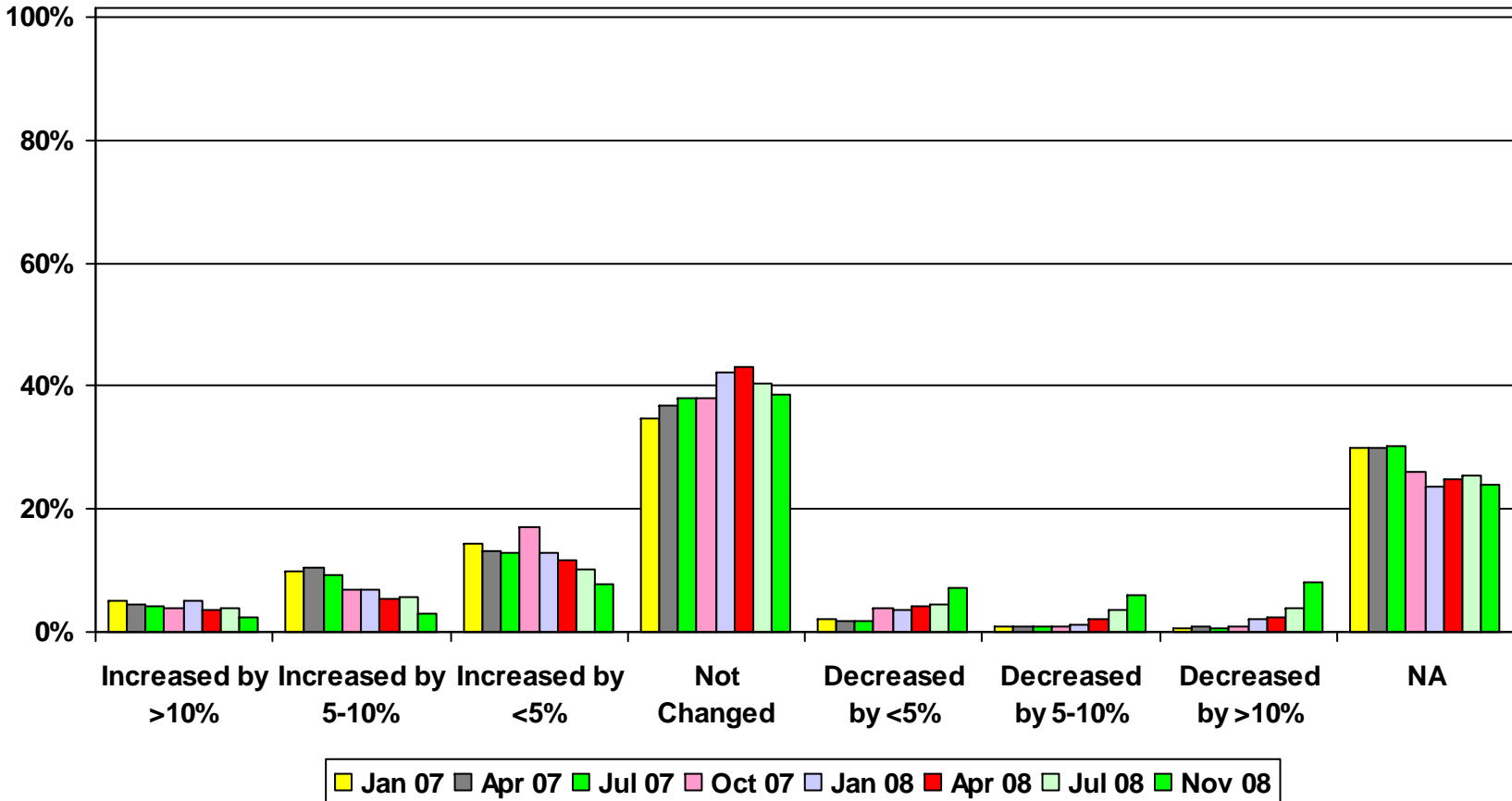
Thinking about the coming 12 months, please comment on the probable change for your organization for advertising, sales & marketing



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Spending Plans Research & Product Development

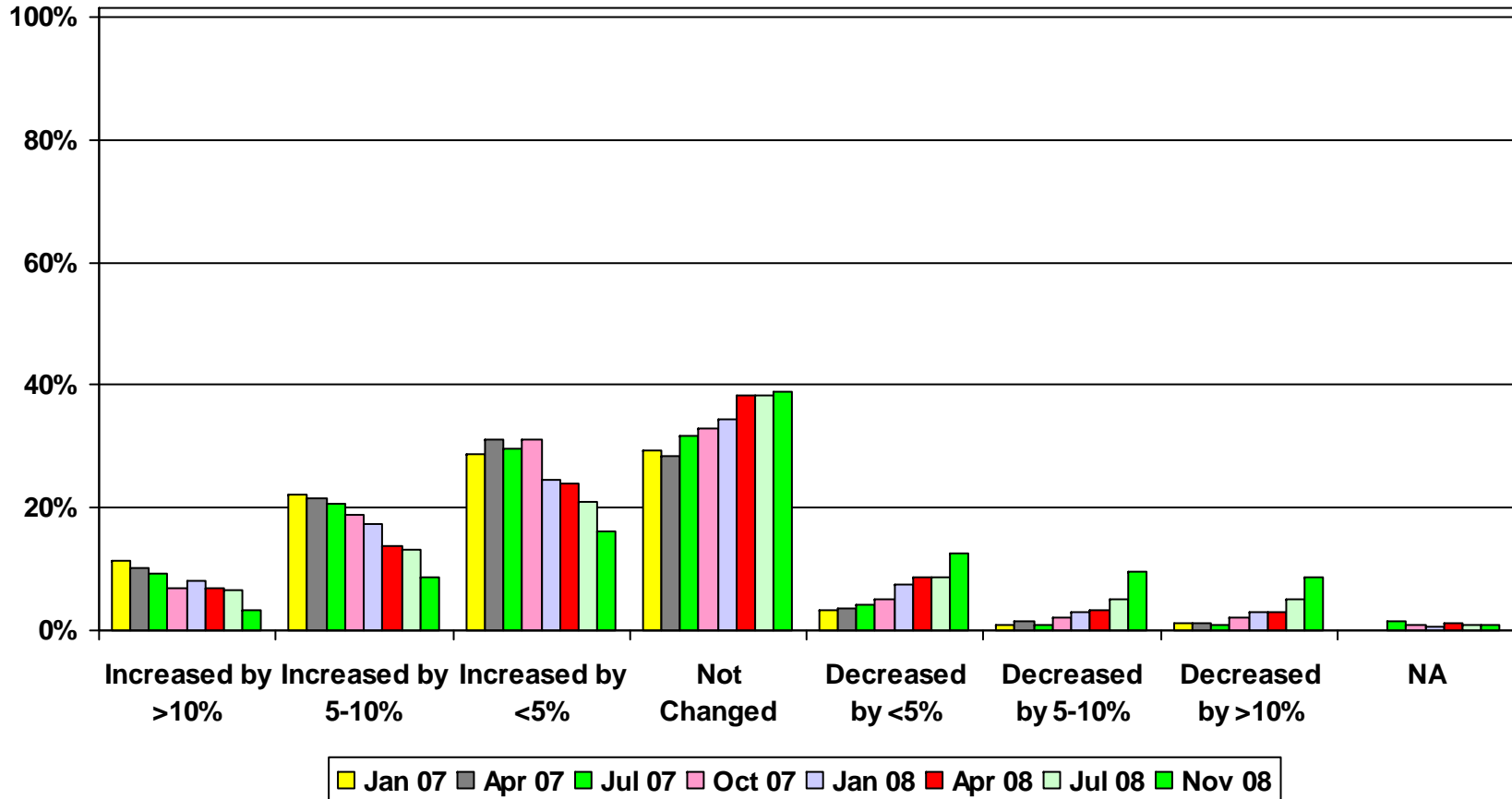
Thinking about the coming 12 months, please comment on the probable change for your organization for research and new product development budget



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Spending Plans Information Technology

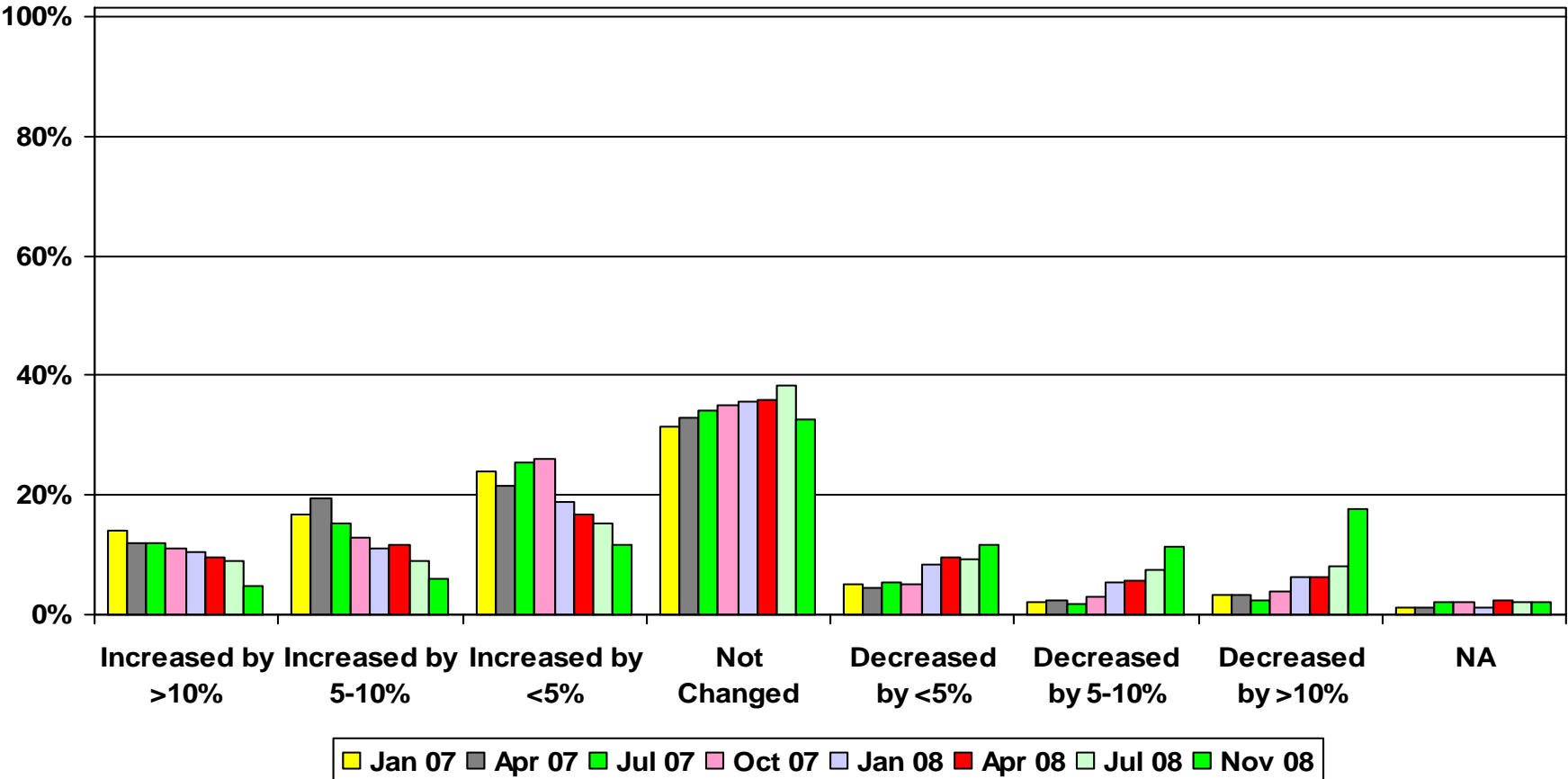
Thinking about the coming 12 months, please comment on the probable change for your organization for information technology budget



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Spending Plans Other capital investment

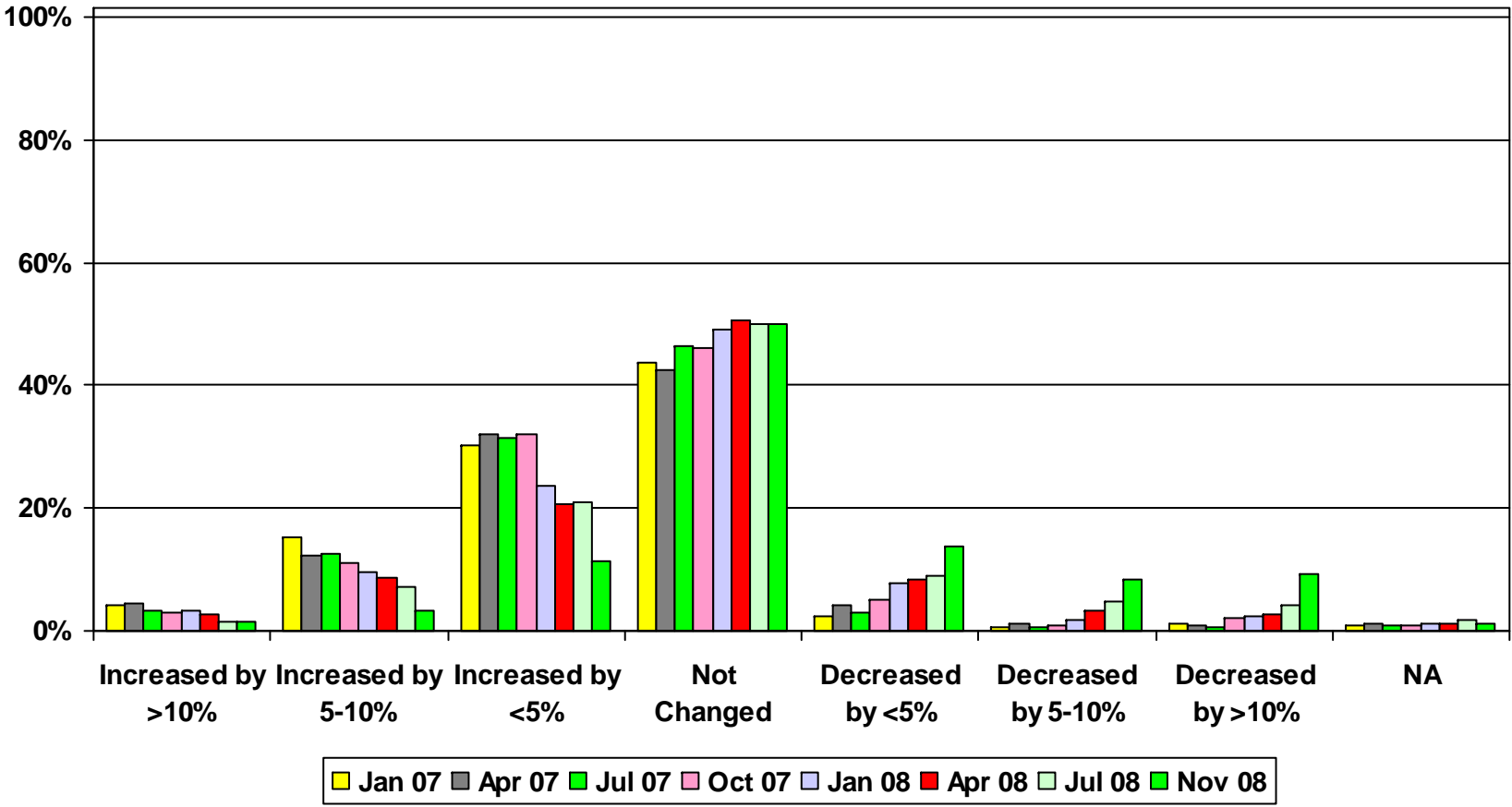
Thinking about the coming 12 months, please comment on the probable change for your organization for other capital investment



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Spending 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 challenges facing organizations

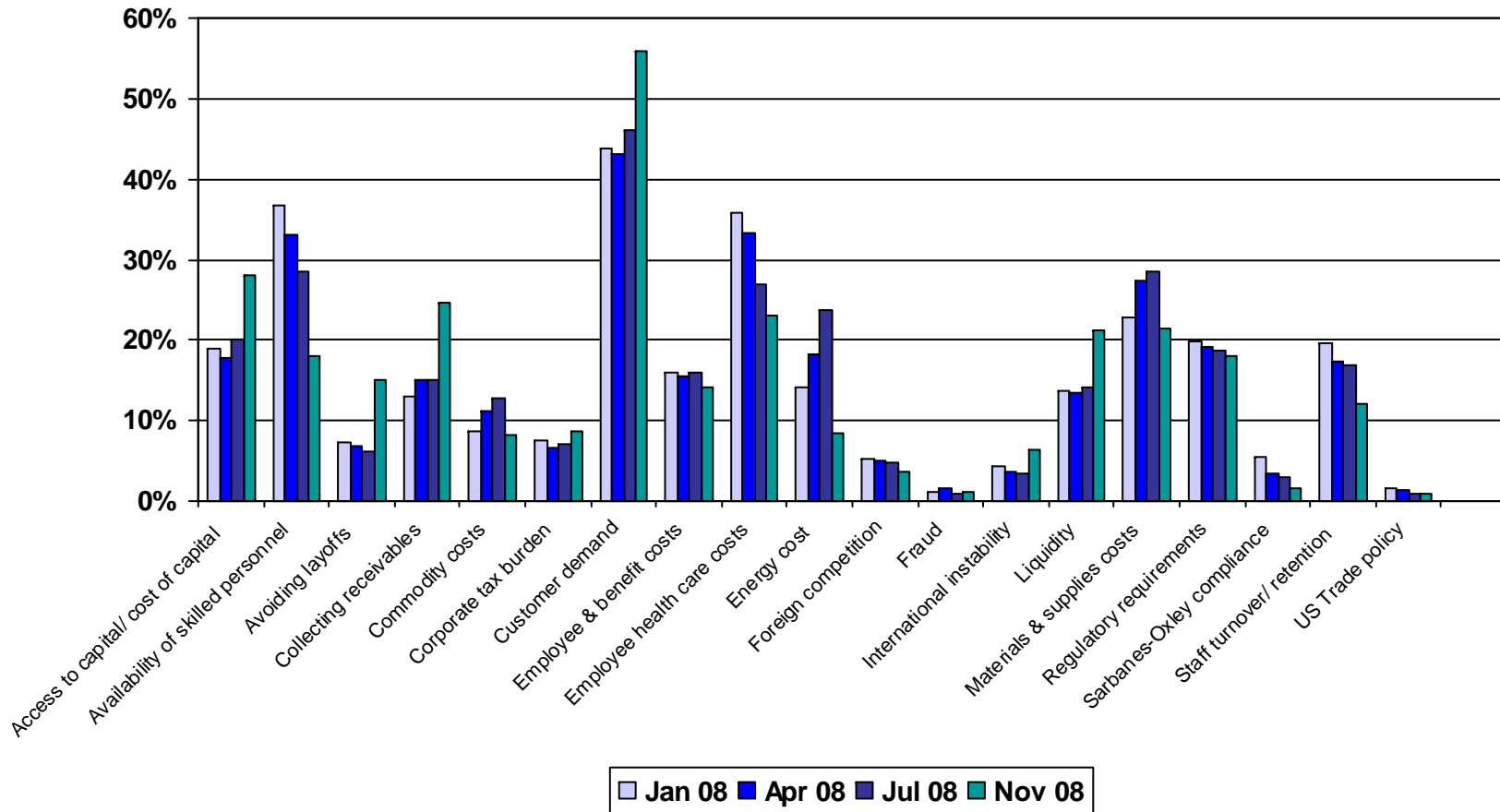
- The Top 3 Challenges facing organizations have changed again this quarter
 - Customer demand remains #1
 - Access to capital/cost of capital is #2
 - Collecting receivables is now #3
 - Liquidity is now #4
- Energy costs dropped out of the top ten for the first time this year
- The increases in these categories track with the open-ended comments on the economy in general where concerns about credit market increased this quarter.

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

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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%



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Changes to Top Challenges for Organizations

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

January 08	April 08	July 08	November 08
Customer demand	Customer demand	Customer demand	Customer demand
Availability of skilled personnel	Employee health care costs	Materials & supplies costs	Access to capital/ cost of capital
Employee health care costs	Availability of skilled personnel	Availability of skilled personnel	Collecting receivables
Materials & supplies costs	Materials & supplies costs	Employee health care costs	Employee health care costs
Regulatory requirements	Regulatory requirements	Energy cost	Materials & supplies costs
Staff turnover/ retention	Energy cost	Access to capital/ cost of capital	Liquidity
Access to capital/ cost of capital	Access to capital/ cost of capital	Regulatory requirements	Availability of skilled personnel
Employee & benefit costs	Staff turnover/ retention	Staff turnover/ retention	Regulatory requirements
Energy cost	Employee & benefit costs	Employee & benefit costs	Avoiding layoffs
Liquidity	Collecting receivables	Collecting receivables	Employee & benefit costs



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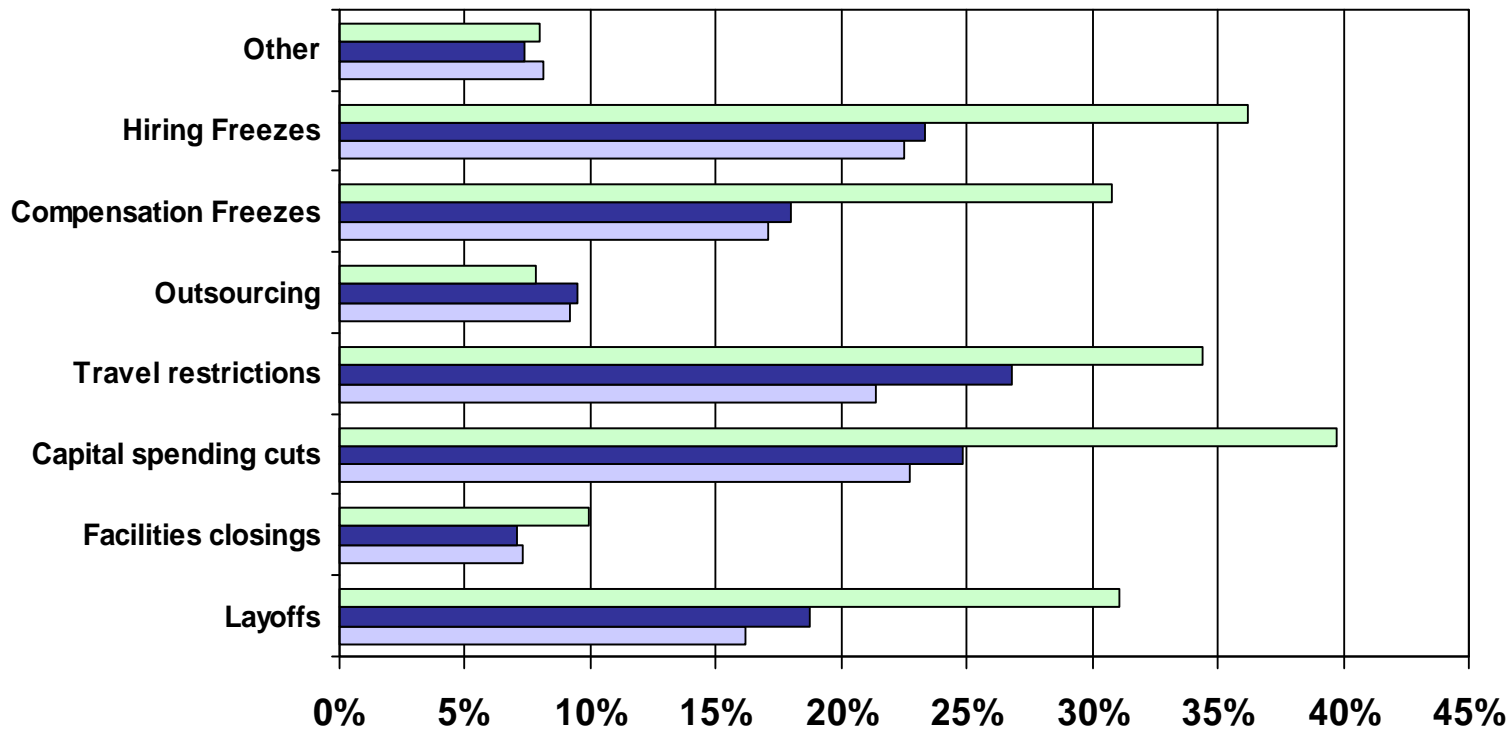
Responses to current conditions

- **Response to current economic conditions** – the number of respondents taking actions increased dramatically this quarter.
 - Capital spending cuts are being undertaken by 40% of respondents
 - 36% have or are expecting to freeze hiring while another 31% have or expect layoffs and/or compensation freezes.
 - 34% have implemented or plan to implement travel restrictions
- **Direct Impact of credit crisis** – Almost two thirds of respondents indicated that their organization has been impacted by the credit crisis. The impacts are varied
 - 28% are experiencing problems with customer collections
 - 25% are experiencing higher credit costs and tighter restrictions
 - 21% are finding that previously available sources of financing are no longer available
- **Strategies to respond to crisis** – Sixty-five percent of respondents have changed strategies in response to the crisis
 - 30% are more aggressively managing inventory and working capital
 - 30% are implementing more restrictive credit and collection practices

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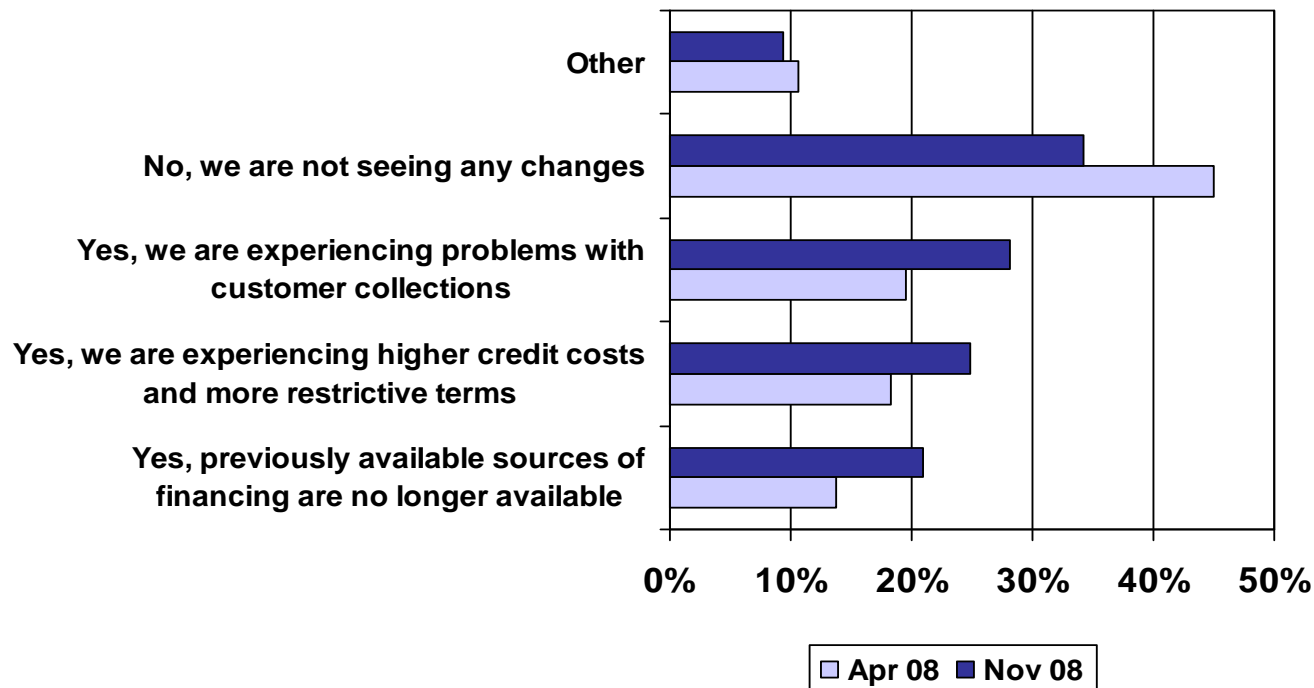
Response to Current Economic Conditions

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



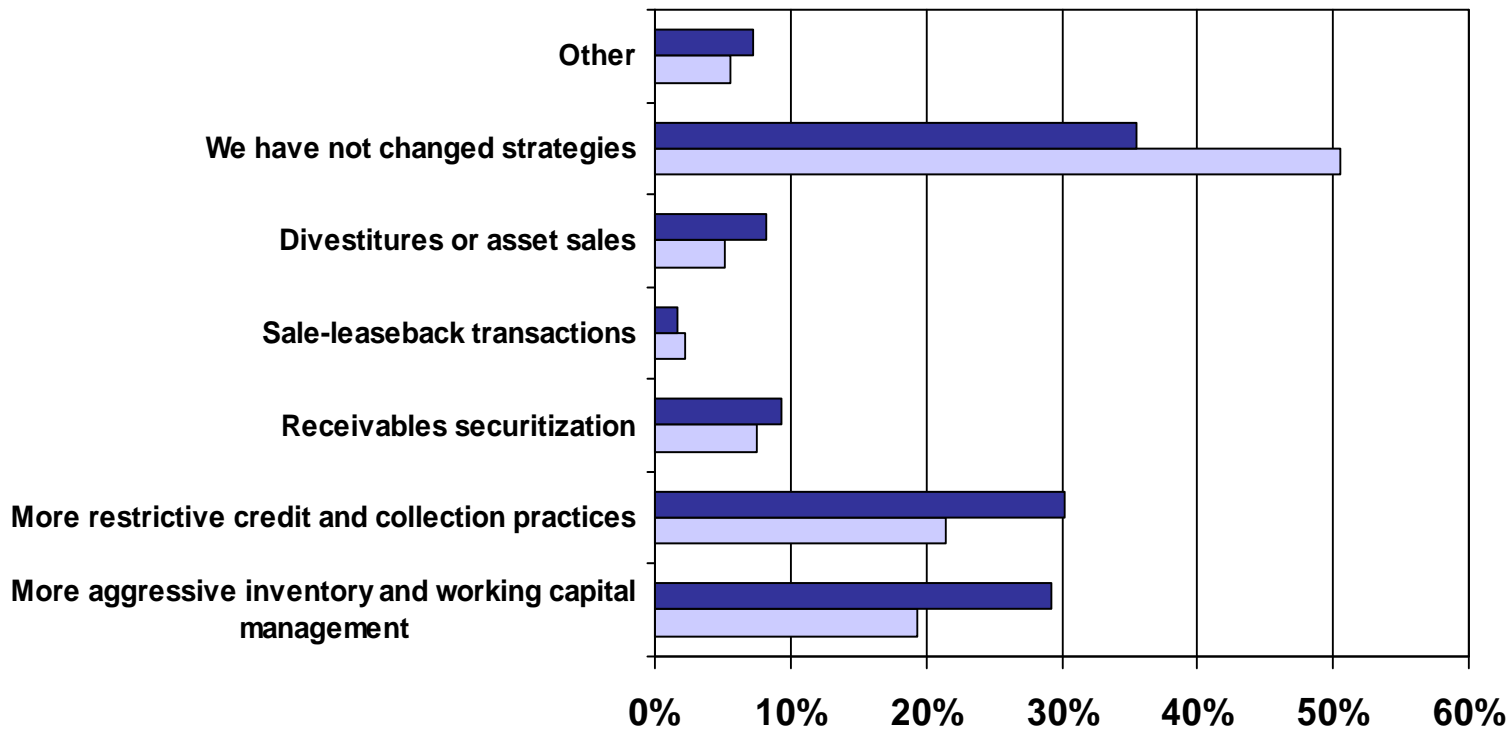
Credit Market Crisis Impact on Company

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



Strategies to Respond to Credit Market Crisis

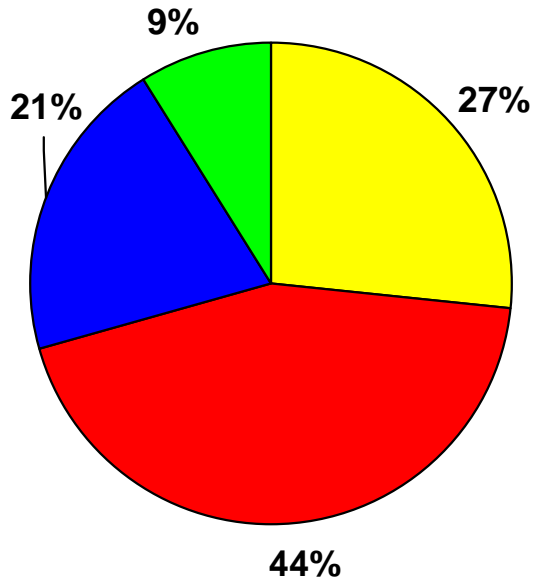
Which of the following strategies are you employing in response to the credit market crisis? Please select all that apply



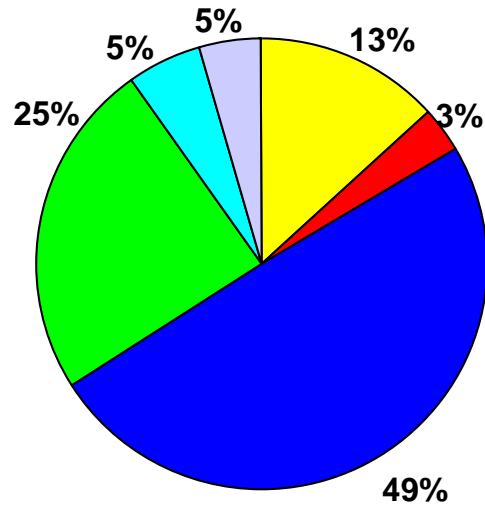
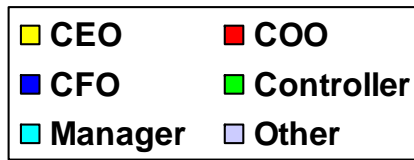
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Survey Respondents

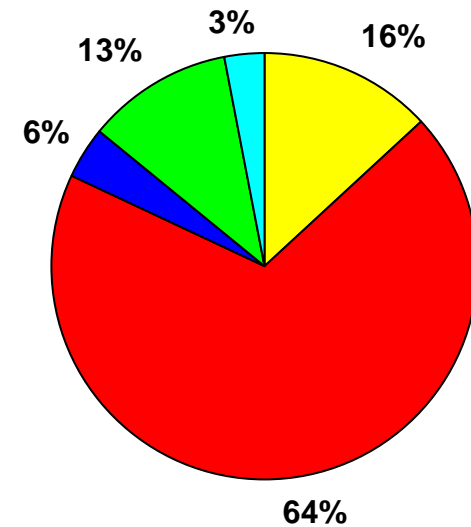
Size of Organization



Position



Type of Organization



Fair Value

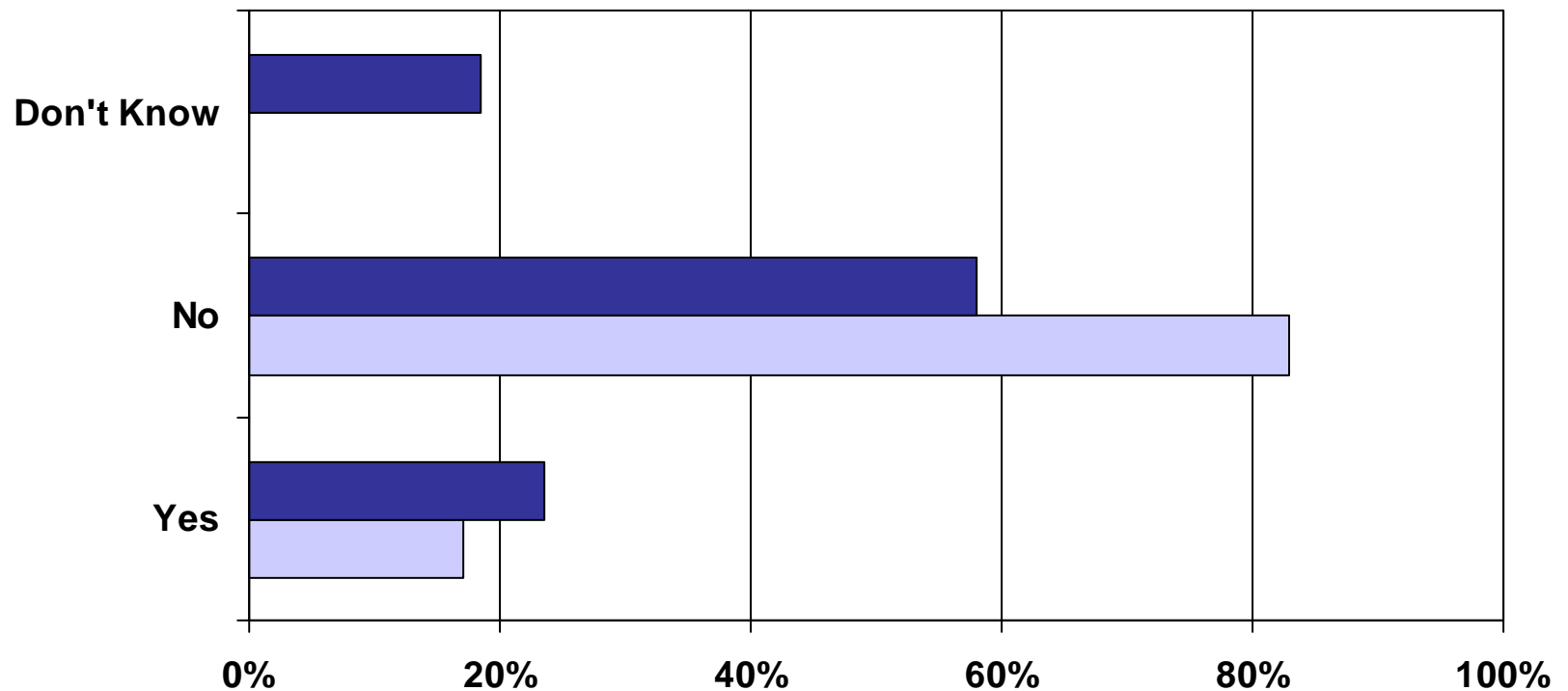
This survey contained a “survey within a survey” developed in partnership with UNC’s Kenan-Flagler Business School concerning Fair Value

Fair Value

- Despite recent criticisms support for Fair Value appears to have increased since these questions were first asked in April. While 24% of respondents felt that fair value accounting was a major cause of the subprime crisis, up slightly since April when 17% felt that way, overall respondents expressed greater support for fair value.
- 47% felt that fair value accounting facilitated investors' understanding of banks aggressive lending practices up from 35% in April
- 43% of respondents felt that Level 1 fair values (market exists for identical assets or liabilities) should be recognized up from 33% in April, while 36% (insignificantly different than the 37% in April) felt they should be disclosed, but not recognized
- Major concerns with Level 1 fair value accounting were excess volatility (36% of respondents) and market prices not reflecting economic value (24%)
- Twenty-one percent (up from 15%) of respondents felt that Level 2 fair values (market exists for similar assets or liabilities) should be recognized and 10% (up from 7%) felt that Level 3 fair values (valuation based on models) should be recognized

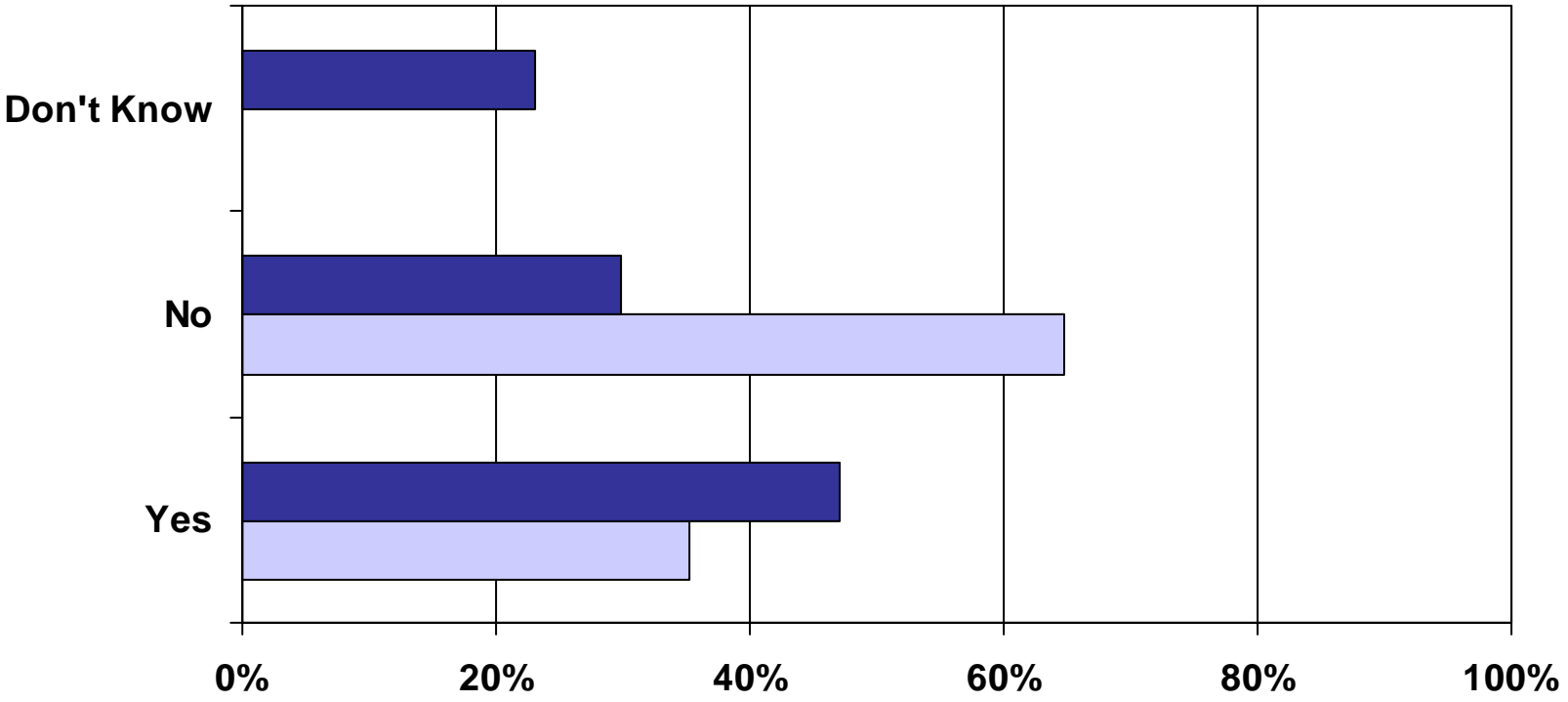
Fair Value & the Subprime Mortgage Crisis

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

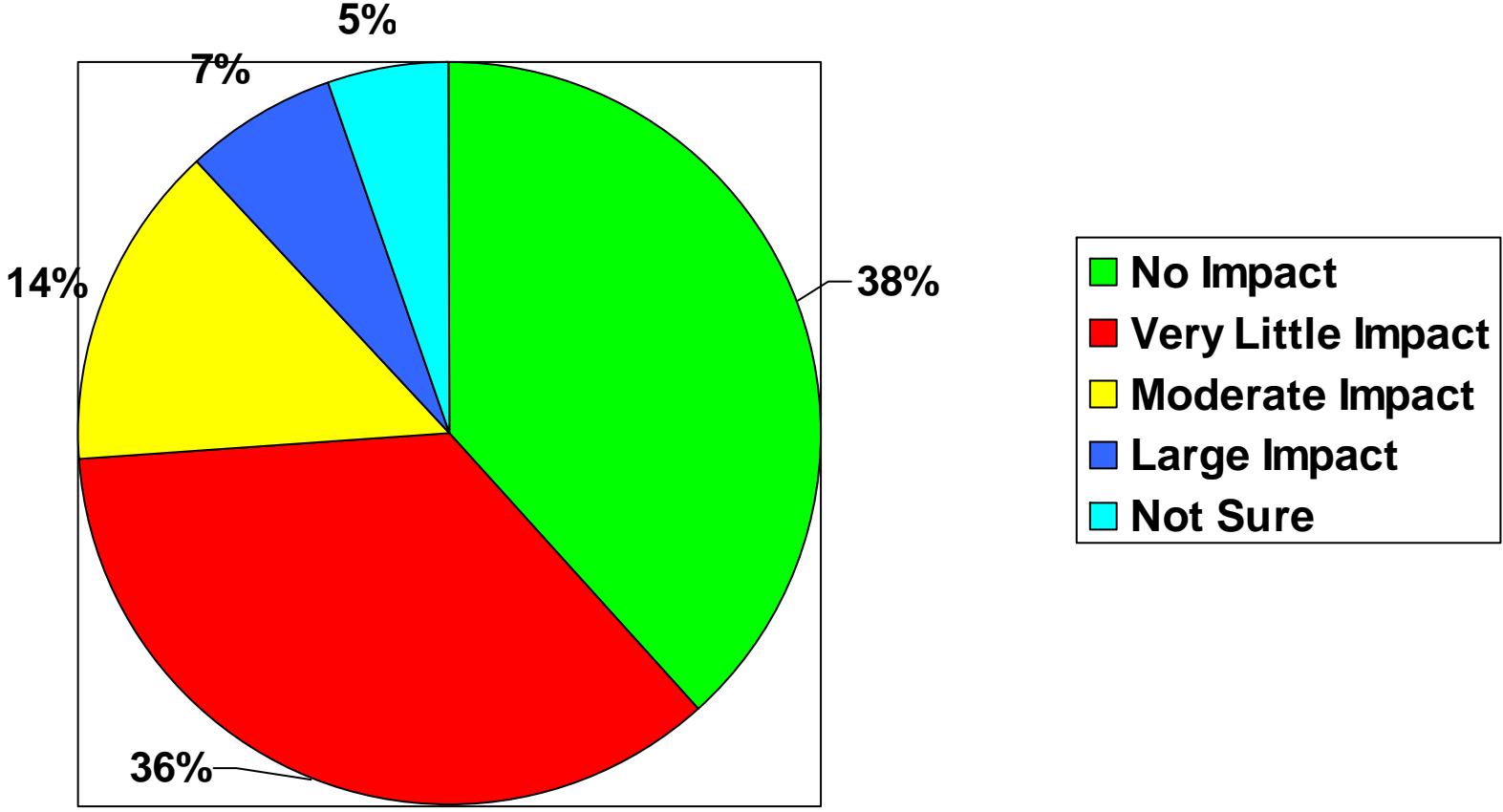
Did fair value accounting facilitate the public's realization of banks' aggressive lending practices?



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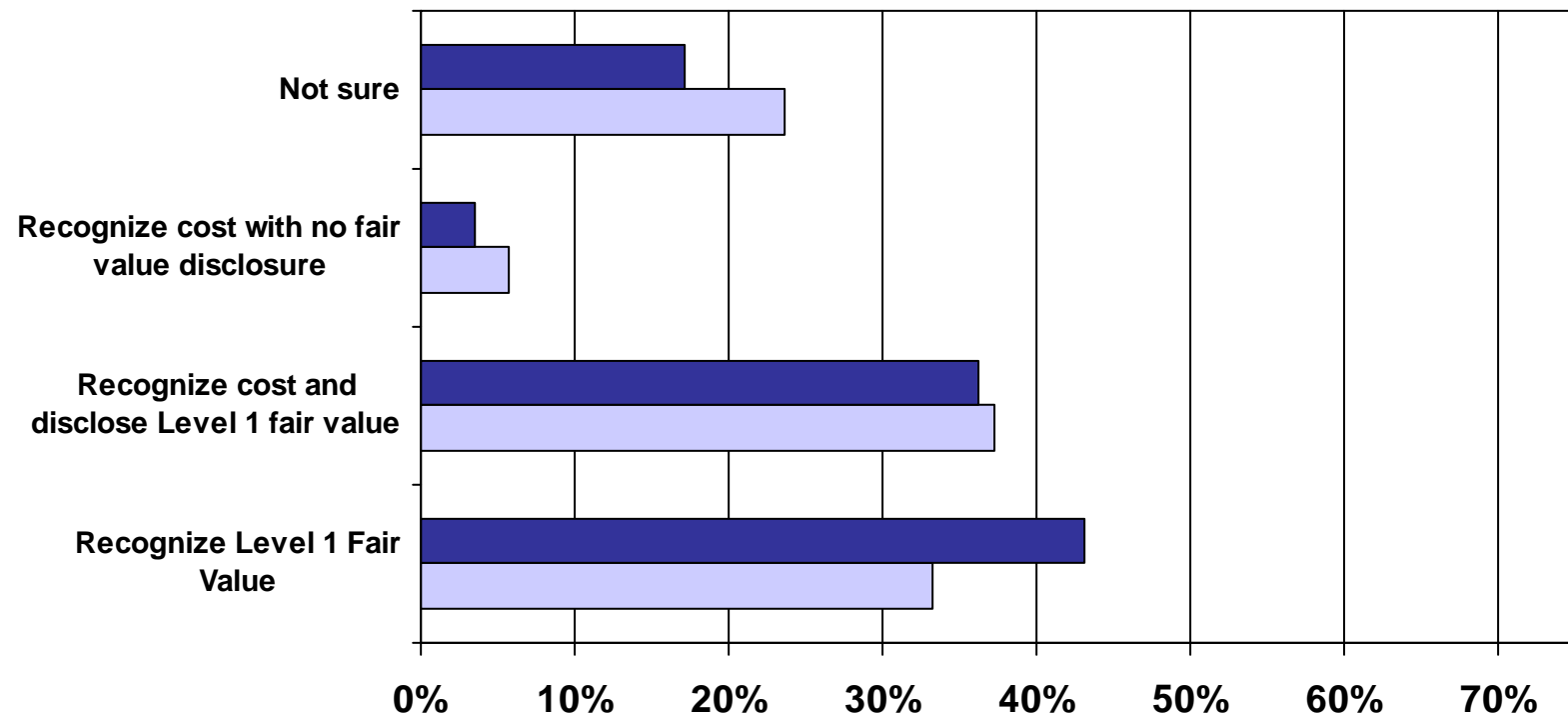
Fair Value Impact on Your Financial Statements

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



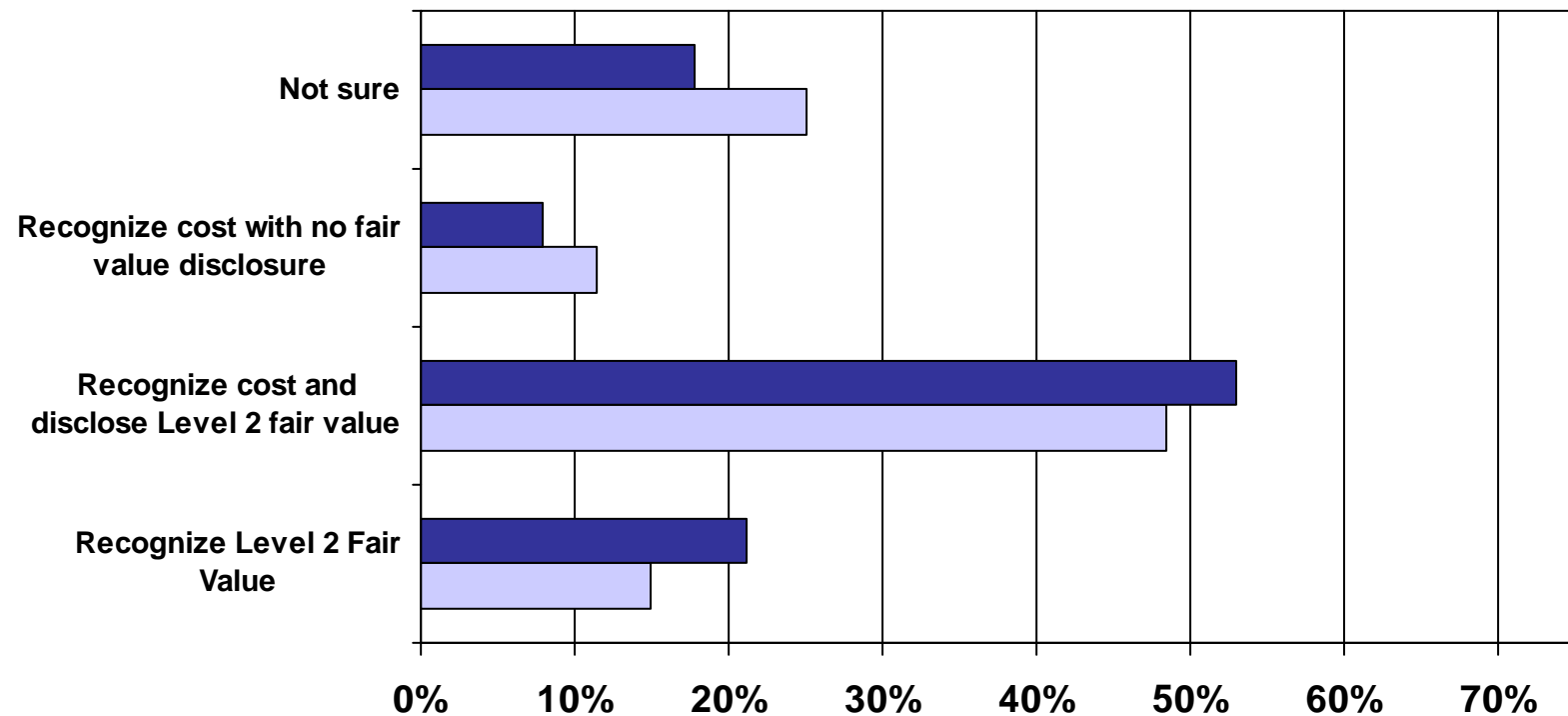
Accounting for Level 1 Fair Value Measures

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?



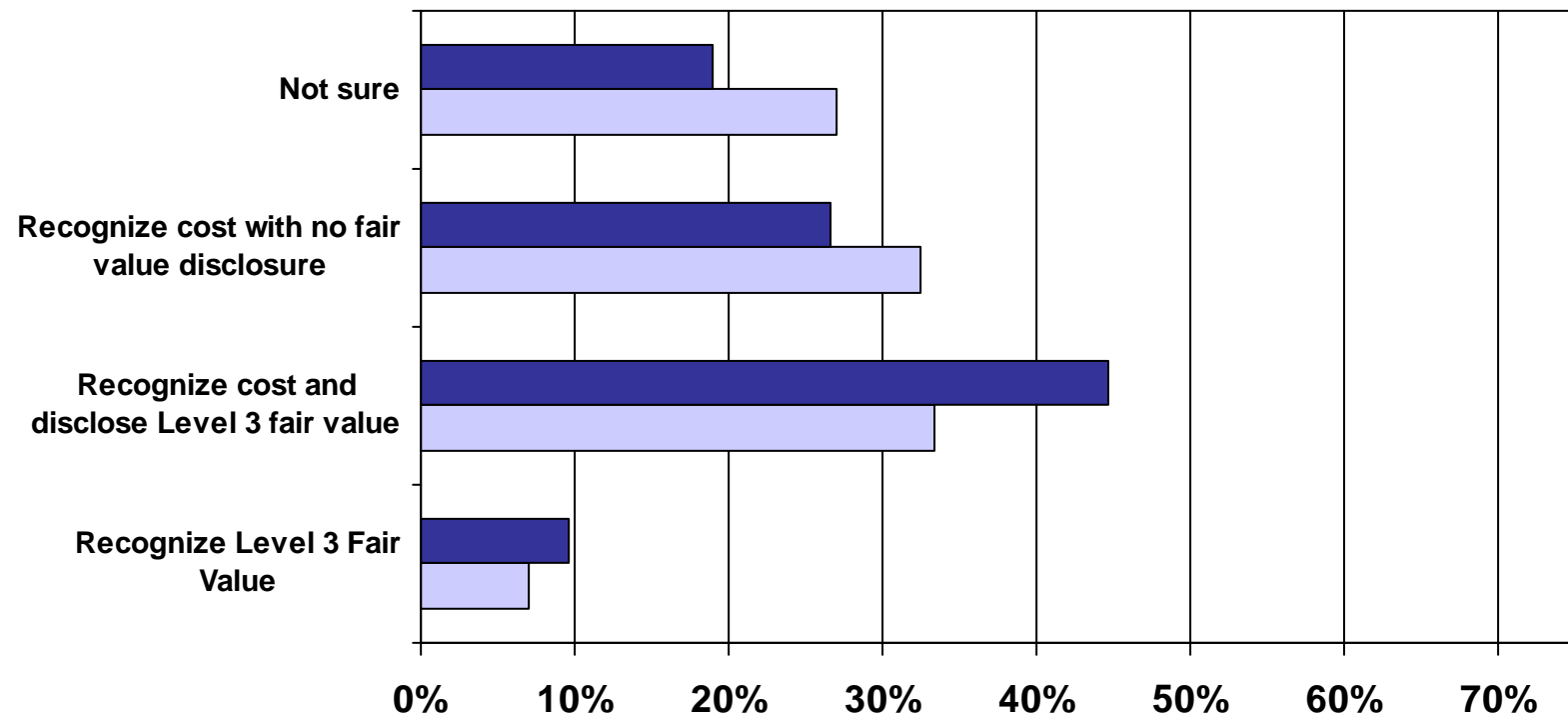
Accounting for Level 2 Fair Value Measures

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?



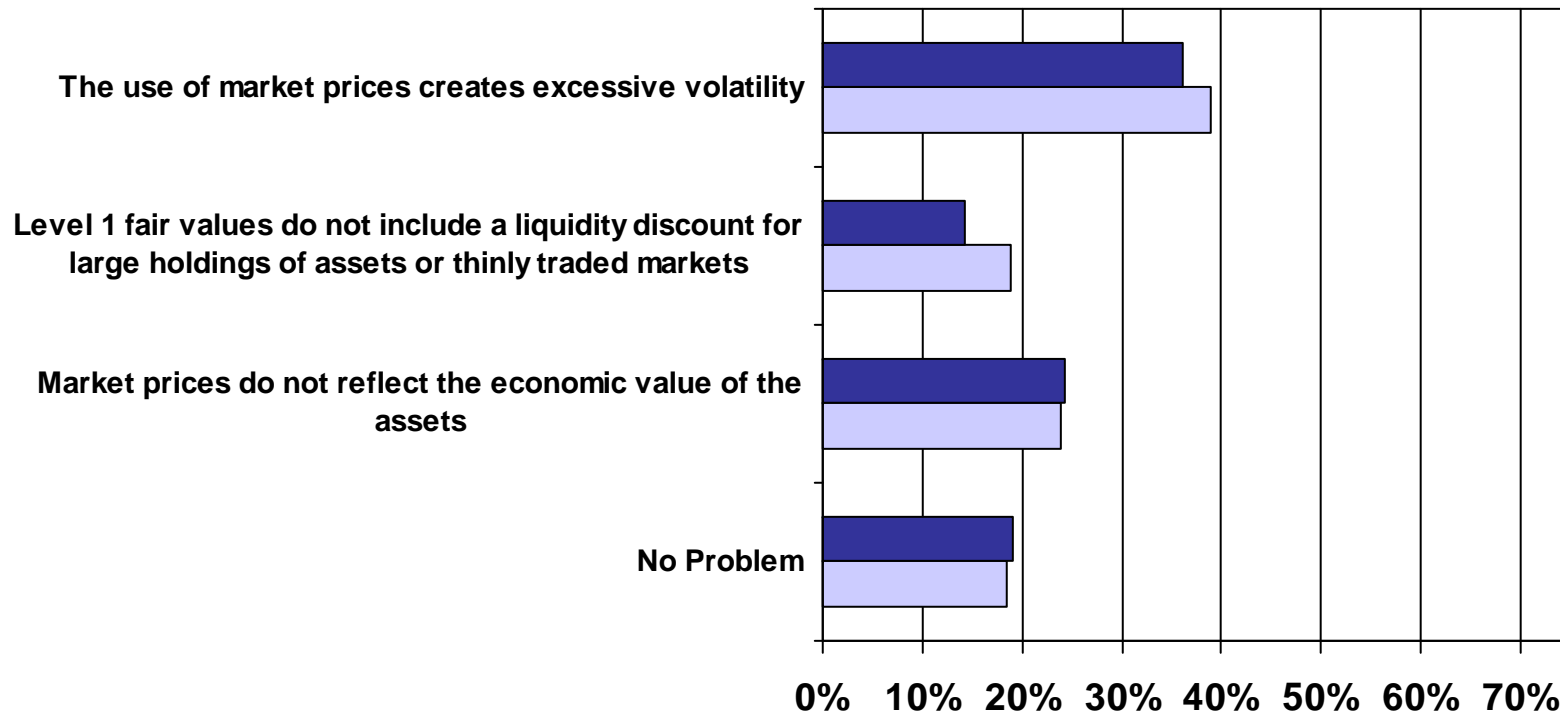
Accounting for Level 3 Fair Value Measures

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

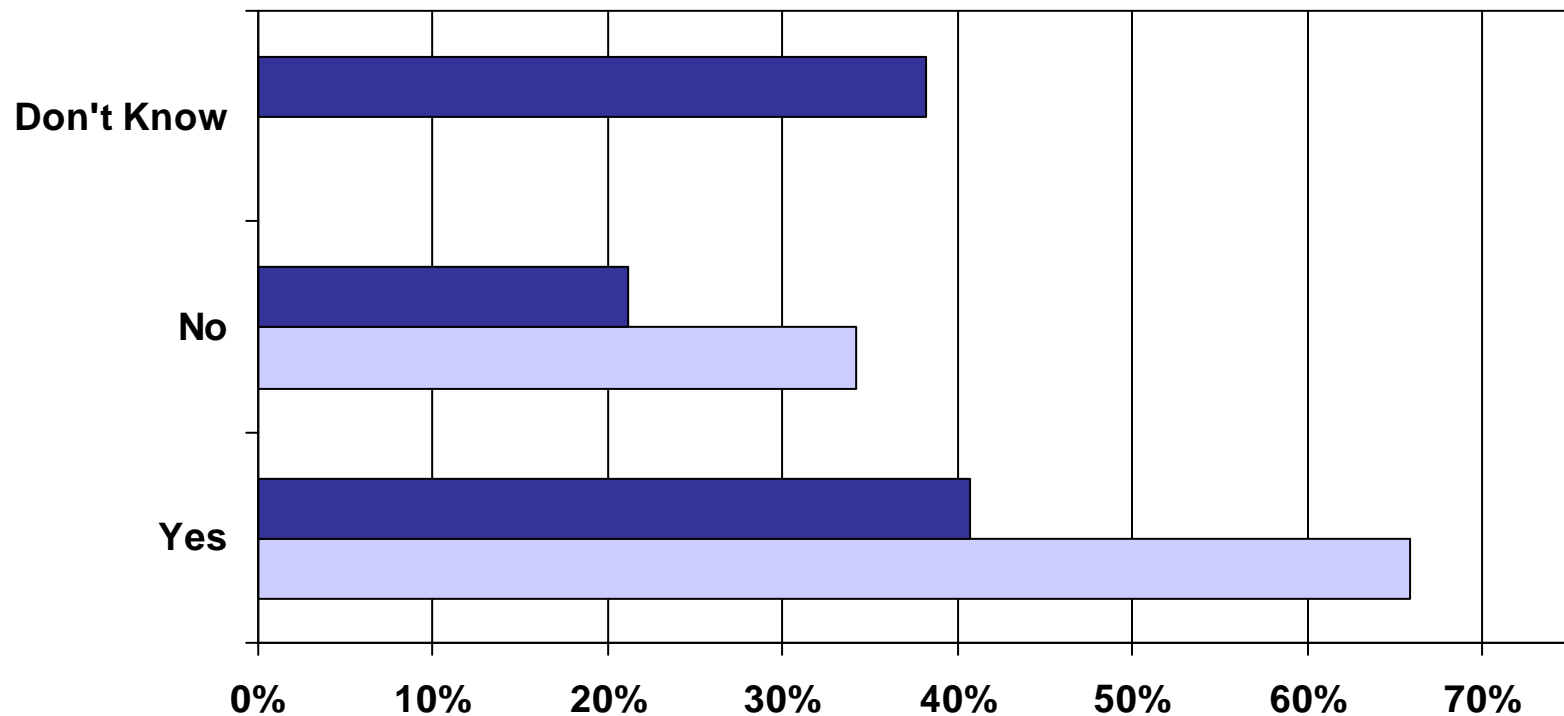
What is the biggest problem with Level 1 fair value asset measures?



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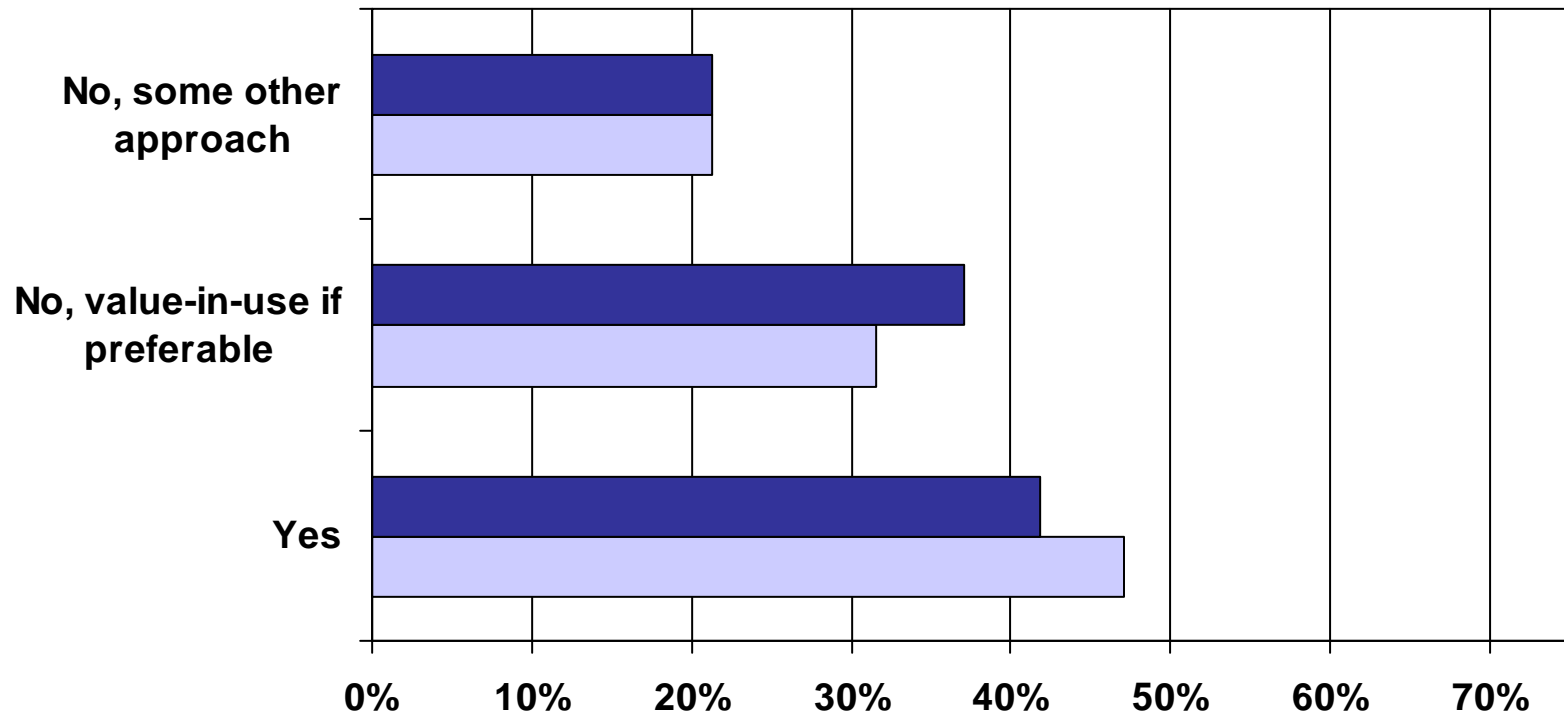
Liquidity Discount for Level 1 Fair Values

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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