



2004 Economic Outlook Survey
Final Report

August, 2004



STATEMENT OF PURPOSE

This survey was conducted among financial leaders to provide the AICPA members with leading-edge intelligence about the directions of the U.S. Economy as seen through the eyes of leading CPA executives in Business and Industry.

Many of the questions speak to general assessments of economic directions, where respondents are asked to assess their expectations on a generic scale (i.e., Increase Substantially", etc.). As such, the following results should be seen as directional, and not exact. Essentially, it may be thought of as a "CFO Confidence Index".

This study is expected to be most revealing if repeated on a regular basis -- so that changes may be tracked over time. The study may enable the AICPA to discern and support statements like:

- ◆ "CFOs are less confident about the U.S. Economy in Q4 2004 than they were in Q2 2004."
- ◆ "CFOs are more concerned about government regulation in Q3 2004 than they were in Q2 2004."

Thus, the "takeaways" for the first study may not be as striking as those of future iterations, because there is no "baseline" to compare to. Nonetheless, we believe that you will find the following results interesting and informative.

Executive Summary

- ❖ Roughly 1 in 10 respondents is "Very Optimistic" about the U.S. Economy. Approximately three quarters of all firms are "Optimistic" or "Very Optimistic" about the U.S. economy. Only 6% of firms are "Pessimistic" or "Very Pessimistic". Small firms are significantly more likely than other groups to have a "Pessimistic" outlook.
- ❖ Roughly 1 in 4 respondents are "Very Optimistic", and one half are "Optimistic". *These assessments are markedly more favorable than those noted for the economy as a whole. That is, respondents are more confident about their immediate situation than those of their collective peers. **We believe this is a very interesting result -- and one that members and respondents would benefit greatly from hearing.***
- ❖ Roughly 1 in 8 respondents anticipate "Substantial" increase in growth. More than 6 in 10 forecast some increase, and only 1 in 10 forecasts a decrease. Small and Medium firms are slightly more likely to expect a decrease.

Executive Summary

- ❖ 10%-12% of firms report growth of "Increase Substantially" for U.S. and Foreign Markets, and for M&A. More than 6 in 10 report increased growth in domestic markets, and the preponderance of the remaining respondents report minimal change. *So fewer than 1 in 9 respondents report a decrease in growth rate for any category above.*
- ❖ More than one half of respondents indicate an increase in IT investment. *Fewer than 1 in 10 respondents report that any investment category will decline.* For New Product Development, "Very Large" (13%) and "Small" (15%) organizations were significantly more likely to report "Increase Substantially" than Medium (6%) or Large (5%) organizations.
- ❖ The majority of respondents anticipate "Minimal Change" for each capital funding category. "Other Debt Instruments" has the lowest change level, with almost 3 in 4 expecting "Minimal Change". Approximately 1 in 3 respondents anticipates an Increase in Bank Borrowing. Less than 1 in 25 respondents anticipates a decrease in Equity funding.

Executive Summary

- ❖ Workforce issues generally show modest increases in all categories. ~4 in 10 expect an increase in "Workforce Size"; 1 in 7 expect a decrease. ~4 in 9 expect an increase in Per EE Wages; 1 in 40 expect a decrease. ~4 in 10 expect an increase in employee benefits; 1 in 18 expect a decrease. *While the "Increase" percentage is high, respondents overwhelmingly see "Moderate" growth. Few anticipate "Substantial" growth in these categories. Note that "Very large" organizations are much more likely to anticipate decreases in workforce size and benefits.*
- ❖ 3 in 4 respondents do not anticipate any outsourcing activities. "Internal Shared Services" is the most popular one, with 1 in 7 respondents using it. Very large organizations are significantly more likely to forecast the use of these strategies. 50% of "Very Large" organizations expect to apply them; ~1 in 5 organizations of other sizes anticipate some outsourcing activity (Small: 21%; Medium: 17%; Large: 22%).
- ❖ Among outsourcing strategies, Internal shared service is most commonly used for "Accounting & Finance" (10%) and "Information Technology" (9%). International outsourcing is most prevalent for "Information Technology" (3%) and "Manufacturing, Assembly, or Distribution" (3%). Domestic outsourcing is most commonly used for Information Technology (3%).

Executive Summary

- ❖ Respondents were asked to enumerate the challenges to their business at the present time. Employee and Benefit Costs was the most commonly rated concern, with more than 4 in 10 indicating "Extremely" or "Very" Concerned, and 1 in 10 indicating "Extreme" concern. "Changing Governmental Regulations" and "Political Changes" were the next most concerning items listed; more than 3 in 10 indicated a high level of concern, and roughly 1 in 10 "Extreme" concern. A complete summary of the level of concerns is available on page 21.
- ❖ Respondents were also asked to name their "primary concern". Economic Conditions were the primary concern of Small (26%), Medium (20%), and Large (15%) organizations. Very Large (10%) were less likely to find Economic Conditions primary. Very large organizations are most concerned with "Changing Government Regulations" (22%). Large organizations are somewhat more likely to be concerned about "Domestic Terrorism" (9%) Medium organizations are more likely to find "Employee and Benefit Costs" (17%) and Materials Supplies..." (12%) primary than other classes. Small organizations are more likely to find "Succession..." and "Political Changes" to be primary.

Conclusions

- ❖ The results generally paint the picture of an economy that is growing moderately, but where respondents generally have more confidence in their immediate surroundings than in the economy as a whole.
- ❖ "Changing Governmental Regulations" and "Political Changes" are both ranked quite high -- suggesting that many respondents perceive that their future performance will be profoundly impacted by the November election.

Recommendations

- ❖ IntelliSurvey has reviewed these results from a "Research" perspective. There is a wealth of data here -- some of which may reveal counter-intuitive observations or unexpected relationships. We strongly recommend that the AICPA business and industry economic team closely review these results, to identify any salient observations omitted herein.
- ❖ A summary of these results should be shared with respondents. This results release could be accompanied by an inquiry whether members find the survey relevant valuable, and if so, how often it should be repeated.

DETAILED SURVEY RESULTS

Survey Methodology

- ❖ 10,000 panelists were invited to the survey on 6/16. Approximately 2,600 (26%) of the emails bounced; thus approximately 7,400 potential respondents were contacted. Non-respondents were reminded of the survey on June 22, and a final reminder was sent on July 2. The survey was closed on July 9.
- ❖ 520 respondents completed the survey (completion rate of ~7%).
- ❖ Respondents were asked a series of detailed questions about their expectations and experiences for the economy.

Definitions

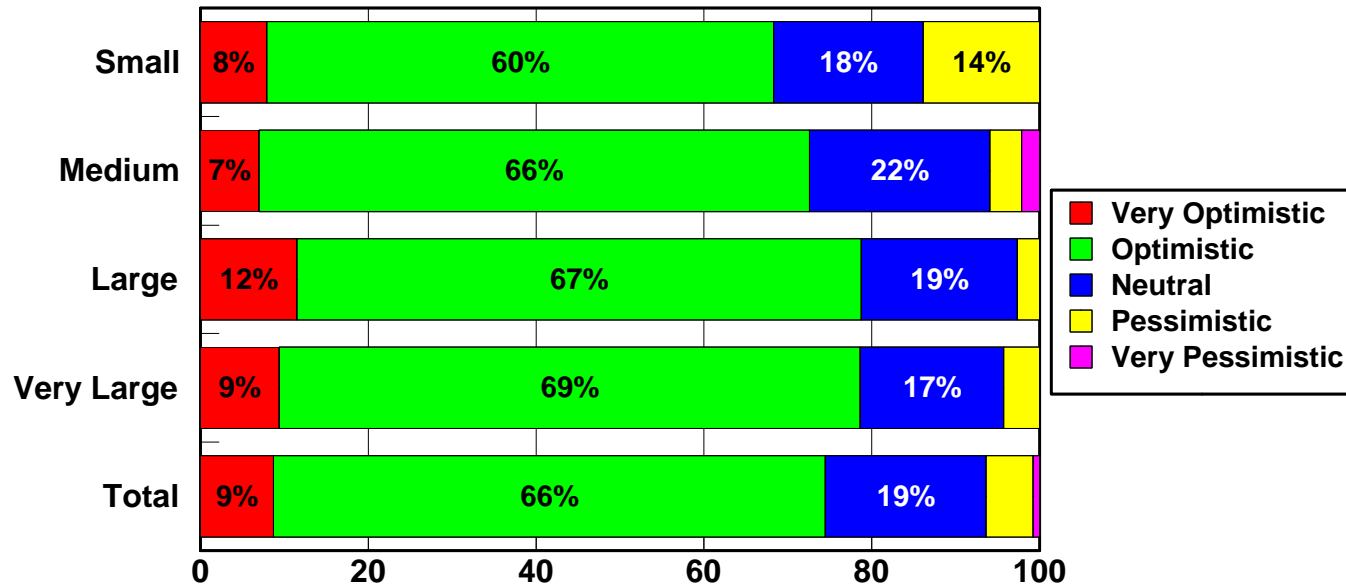
The remainder of the report will stratify respondents by the size of their organization. The categories and definitions are:

Category	Revenues
Small	Less than \$10 million
Medium	\$10 million to \$100 million
Large	\$101 million to \$1 billion
Very Large	More than \$1 billion

Statistically significant differences between these groups are highlighted where appropriate.

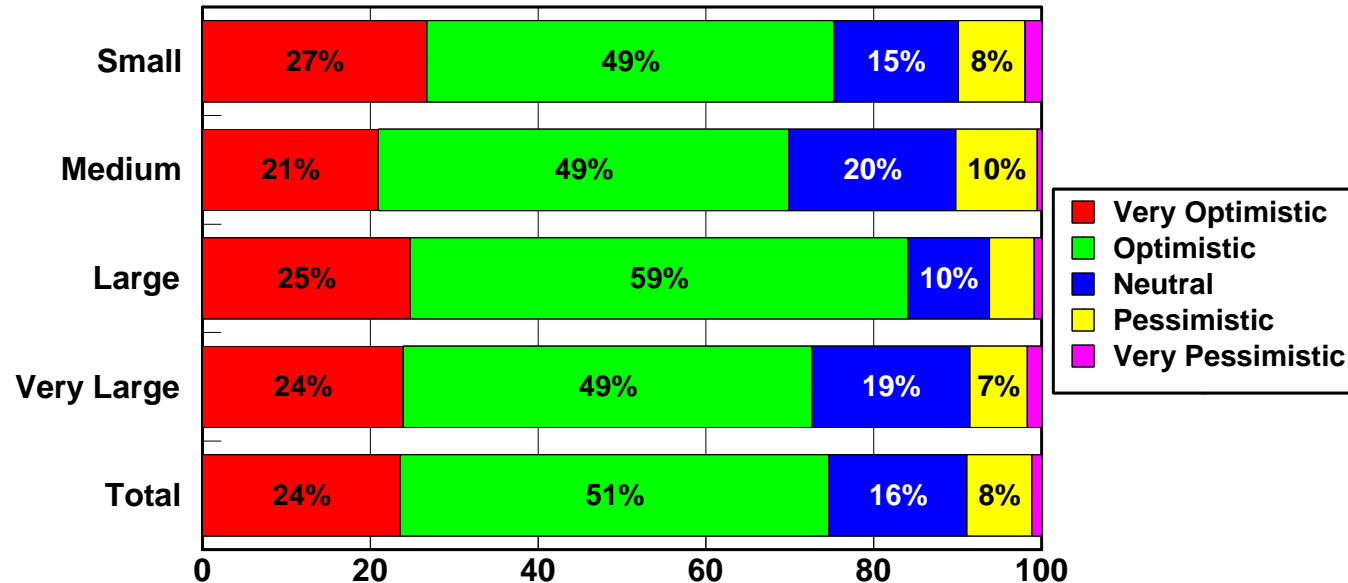
In addition to these groups, the results were also segmented according to respondents' level of optimism about both the U.S. economy as a whole and their organization in particular, as well as by region. These results are included in Appendix A. Upon request, IntelliSurvey will prepare additional "splits".

What are your feelings about the U.S. Economy over the next six months? Are you...



- ❖ Roughly 1 in 10 respondents is "Very Optimistic" about the U.S. Economy.
- ❖ Approximately three quarters of all firms are "Optimistic" or "Very Optimistic" about the U.S. economy. Only 6% of firms are "Pessimistic" or "Very Pessimistic".
- ❖ Small firms are significantly more likely than other groups to have a "Pessimistic" outlook.

Similarly, what are your feelings about your organization over the next six months? Are you...

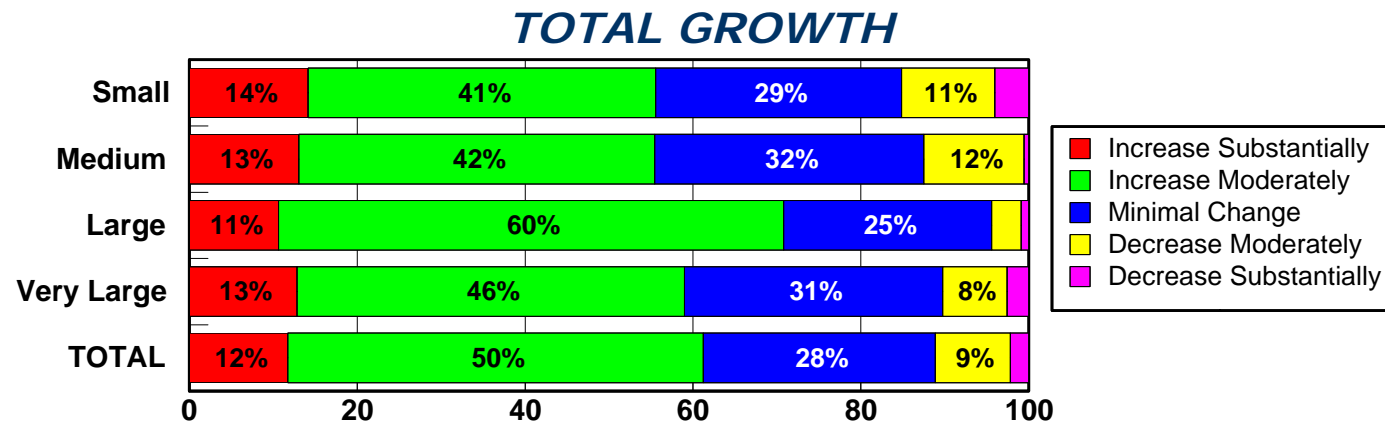


- ❖ Roughly 1 in 4 respondents are "Very Optimistic", and one half are "Optimistic".
- ❖ These assessments are, as a whole, markedly more favorable than those noted on the last page, where roughly 1 in 10 respondents was "Very Optimistic" about the economy as a whole.

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Please indicate how your organization will change in each of the following growth areas over the next six months. For example, if your organization grew at 5% a year for the last few years, and is now on track to grow by 3% for the next six months 2004, you would respond "Decrease moderately".



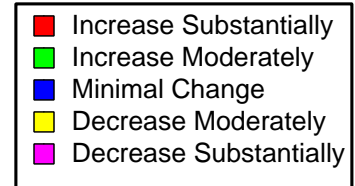
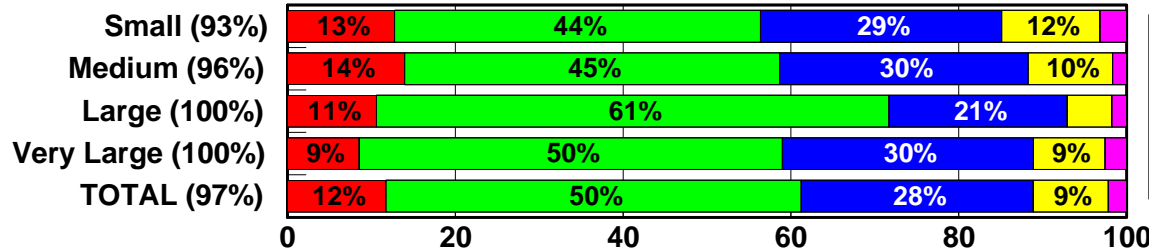
- ❖ Roughly 1 in 8 respondents anticipated "Substantial" increase in growth. More than 6 in 10 forecast some increase in growth.
- ❖ Only roughly 1 in 10 respondents forecasts a decrease in growth.
- ❖ Small and Medium firms have slightly higher rates for "Decrease Substantially" than large firms.

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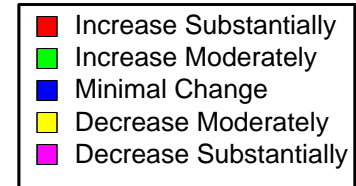
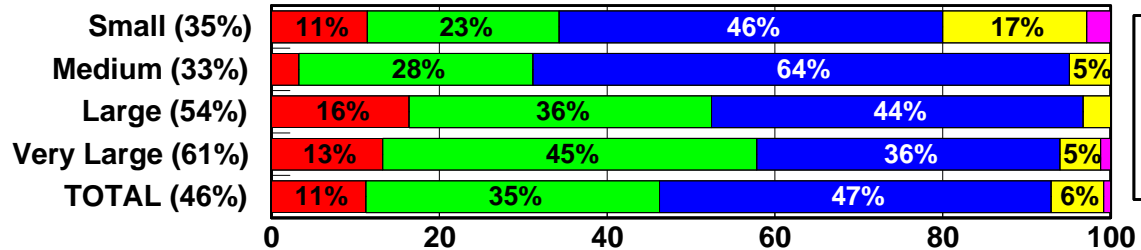


GROWTH BY SEGMENT

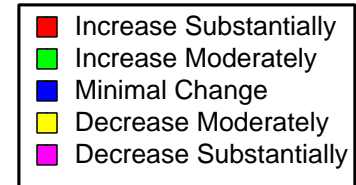
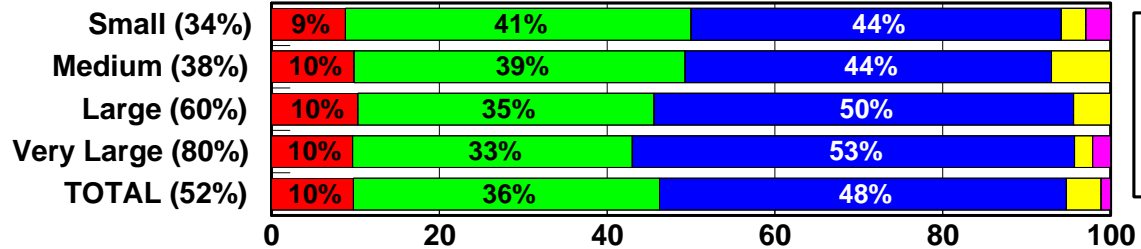
U.S. Markets



Foreign Markets



M&A / Strategic Alliances

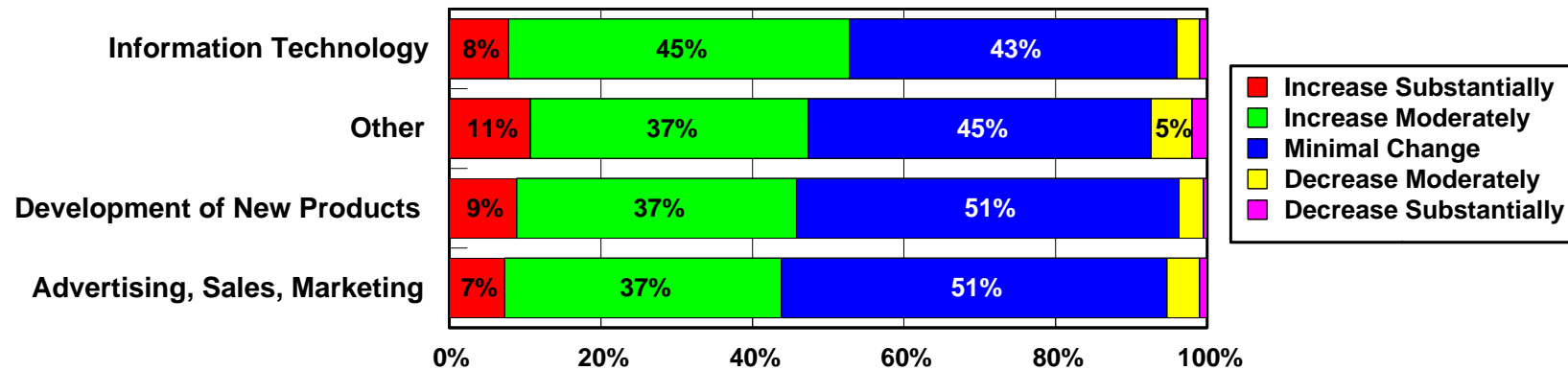


- ❖ The % alongside the organization size indicates the proportion of respondents who answered the question. Larger organizations were more responsive; presumably they were more likely to have foreign exports, M&A activity, etc. Other percentages are based on those responding.
- ❖ For each growth type above, 10%-12% of firms report growth of "Increase Substantially".
- ❖ More than 6 in 10 report increased growth in domestic markets. Less than one half of respondents report increased growth in Foreign Markets or in M&A. Fewer than 1 in 9 respondents report a decrease in growth rate for any category above.
- ❖ Small and Medium firms are significantly less likely to report growth in Foreign markets.

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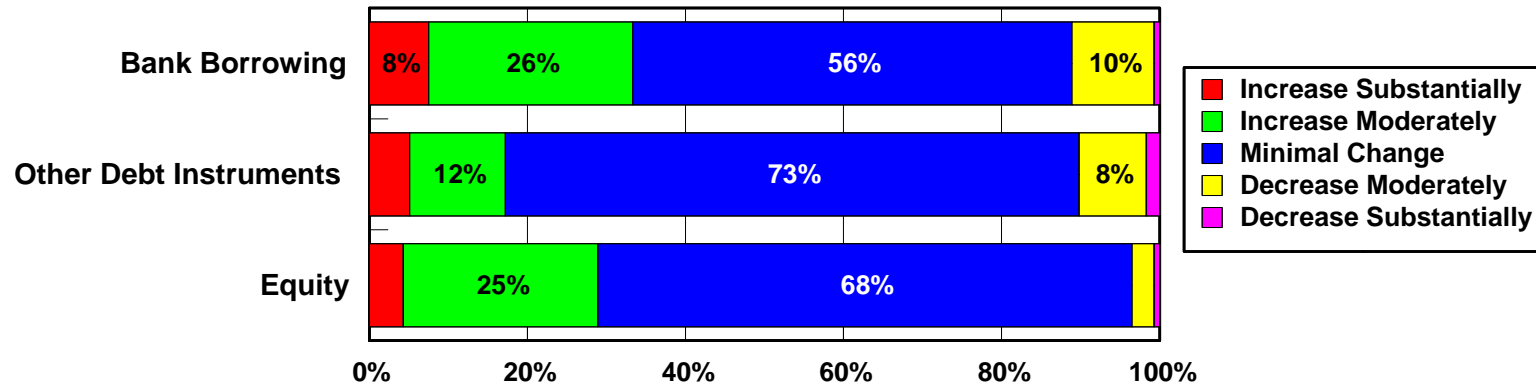


Please indicate how your organization's investment spending will change over the next six months by rating the relative activity in each of the following spending categories.



- ❖ More than one half of respondents indicate an increase in IT investment.
- ❖ Fewer than 1 in 10 respondents report that any investment category will decline.
- ❖ For New Product Development, "Very Large" (13%) and "Small" (15%) organizations were significantly more likely to report "Increase Substantially" than Medium (6%) or Large (5%) organizations.

Please indicate your organization's plans for capital funding over the next six months in the following categories.



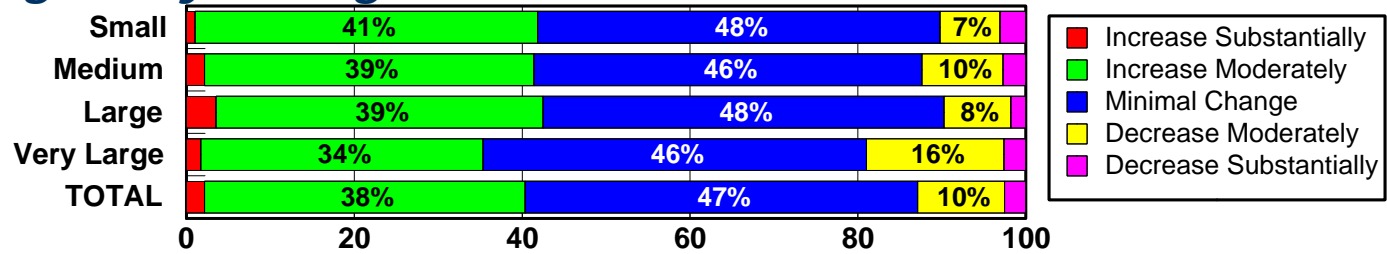
- ❖ The majority of respondents anticipate "Minimal Change" for each capital funding category. "Other Debt Instruments" has the lowest change level, with almost 3 in 4 expecting "Minimal Change".
- ❖ Approximately 1 in 3 respondents anticipates an Increase in Bank Borrowing.
- ❖ Less than 1 in 25 respondents anticipates a decrease in Equity funding.

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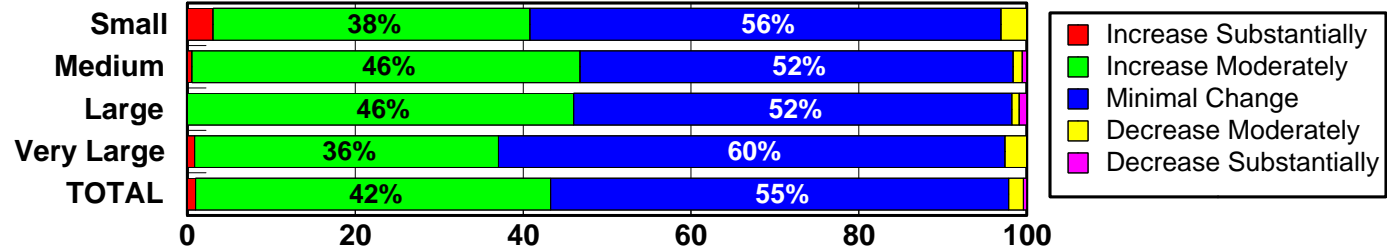


Please indicate how the following workforce related parameters will change for your organization over the next six months

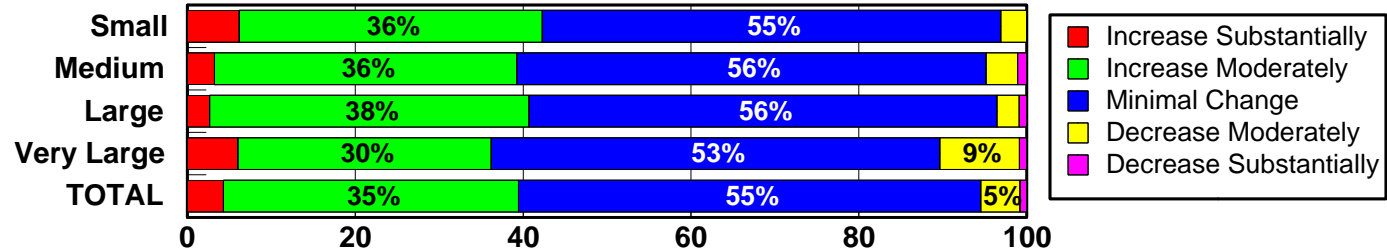
Workforce Size



Wages/Salaries (Per EE)

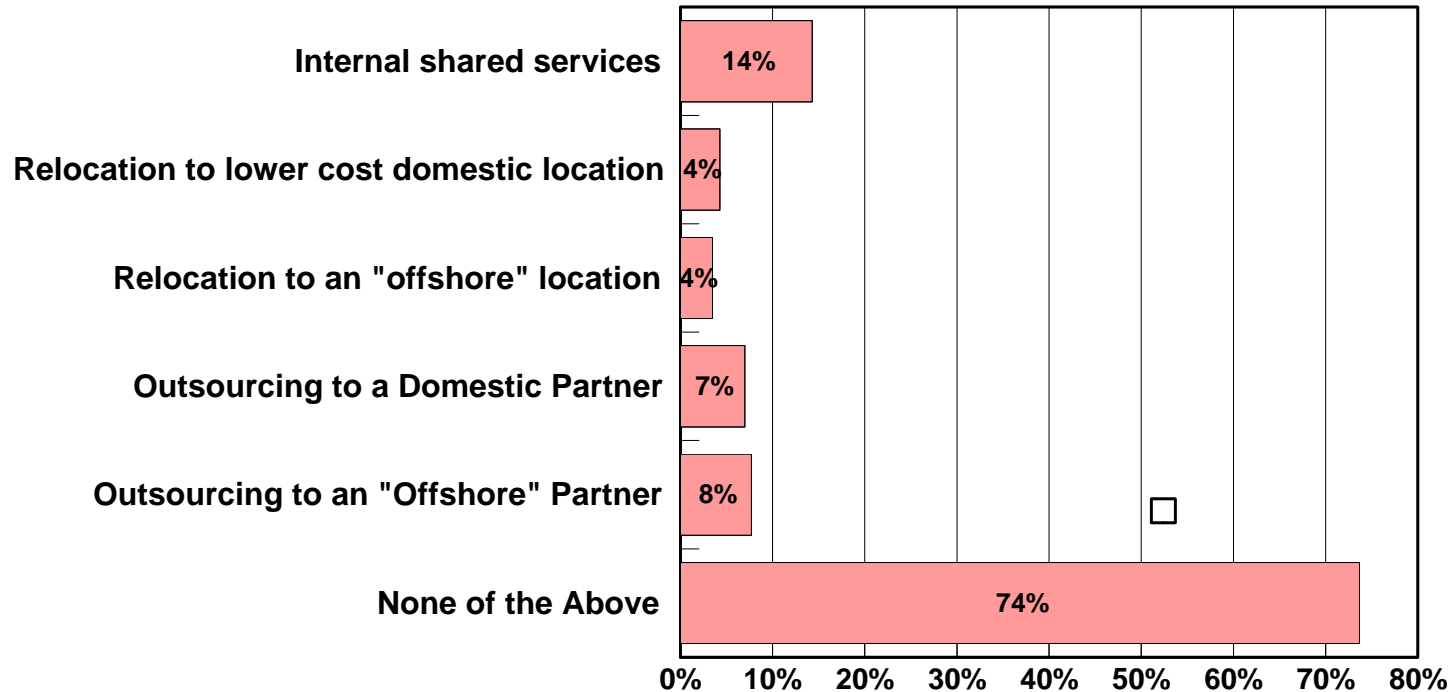


Employee Benefits



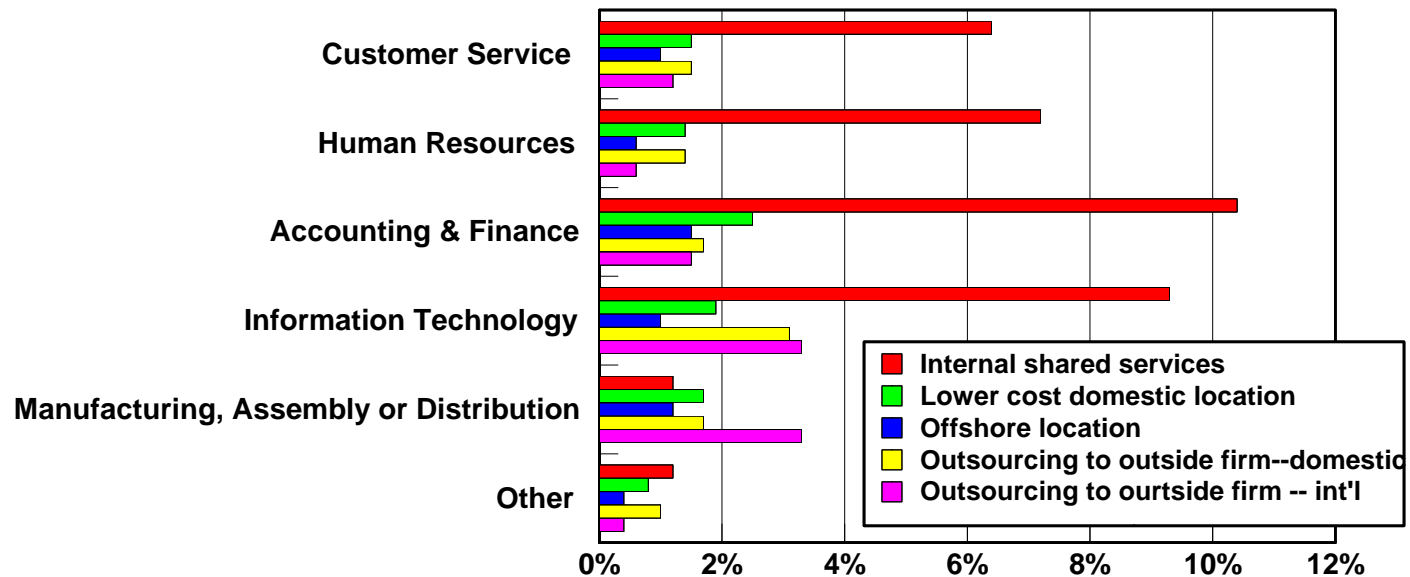
- ❖ Roughly 4 in 10 expect an increase in "Workforce Size". 1 in 7 expect a decrease.
- ❖ Roughly 4 in 9 expect an increase in Per EE Wages. 1 in 40 expect a decrease.
- ❖ Roughly 4 in 10 expect an increase in employee benefits. 1 in 18 expect a decrease.
- ❖ While "Increase" is greater than "Decrease" for all categories above, these are overwhelmingly "Moderate". Few respondents in any category anticipate "Substantial" growth anywhere.
- ❖ "Very large" organizations are much more likely to anticipate decreases in workforce size and benefits.

Which of the following strategies does your organization plan to adopt in the next six months?



- ❖ 3 in 4 respondents do not anticipate any outsourcing activities whatsoever.
- ❖ "Internal Shared Services" is the most popular strategy above, with 1 in 7 respondents using it.
- ❖ Very large organizations are significantly more likely than other groups to forecast the use of any of these strategies. *50% of "Very Large" organizations expect to apply these strategies; approximately 1 in 5 organizations of other sizes anticipate some outsourcing activity (Small: 21%; Medium: 17%; Large: 22%).*

Which of the following strategies does your organization plan to adopt in the next six months?

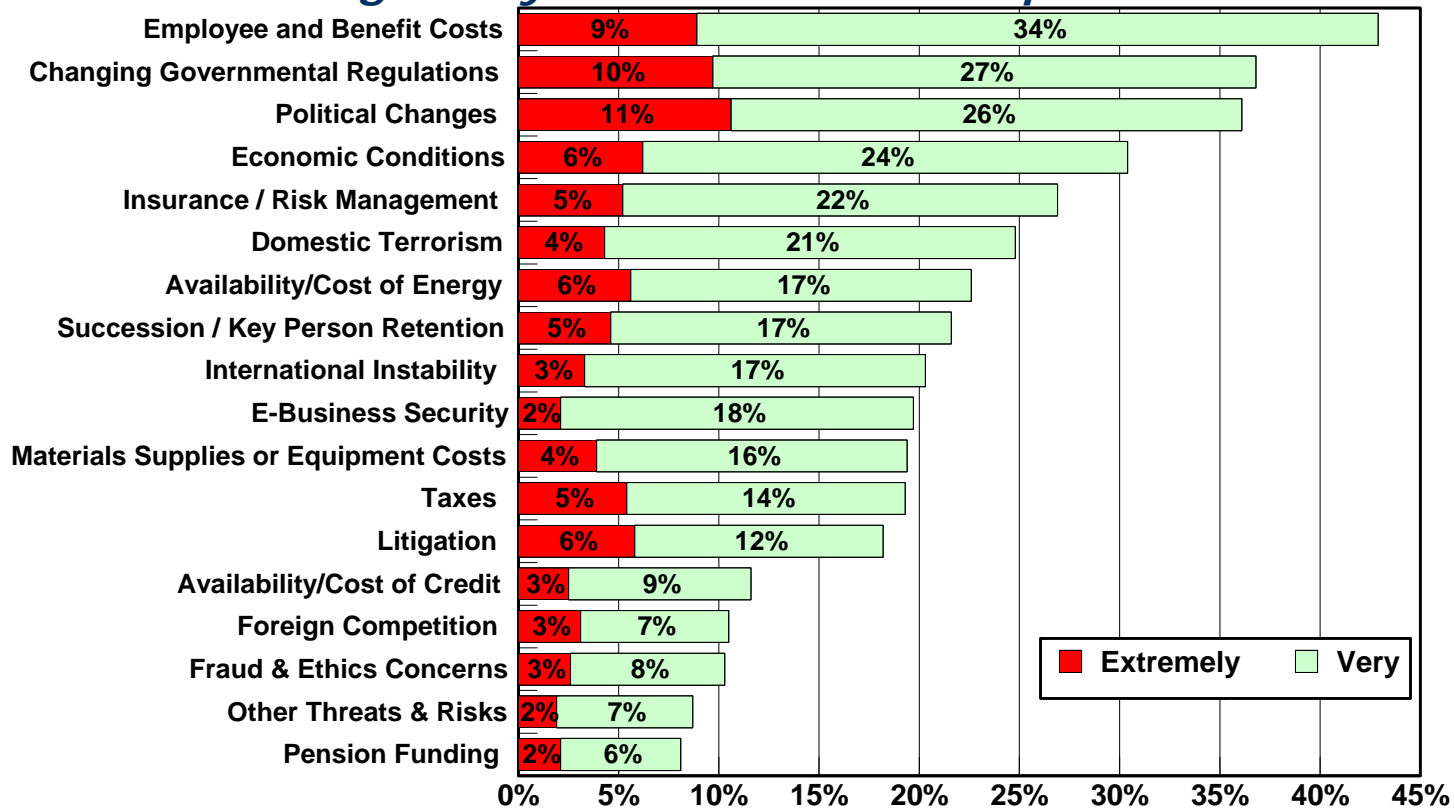


- ❖ The above chart indicates the proportion of organizations that have conducted the strategies for the services. For example, 6.5% of organizations have adopted the "Internal Shared Services" strategy for the "Customer Service" function.
- ❖ Internal shared service is most commonly used for "Accounting & Finance" (10%) and "Information Technology" (9%).
- ❖ International outsourcing is most prevalent for "Information Technology" (3%) and "Manufacturing, Assembly, or Distribution" (3%).
- ❖ Domestic outsourcing is most commonly used for Information Technology (3%).

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How concerned are you about each of the following issues or challenges to your business at the present time?



- ❖ Employee and Benefit Costs was the most commonly rated concern, with more than 4 in 10 indicating "Extremely" or "Very" Concerned, and 1 in 10 indicating "Extreme" concern.
- ❖ "Changing Governmental Regulations" and "Political Changes" were the next most concerning items listed; more than 3 in 10 indicated a high level of concern, and roughly 1 in 10 "Extreme" concern.

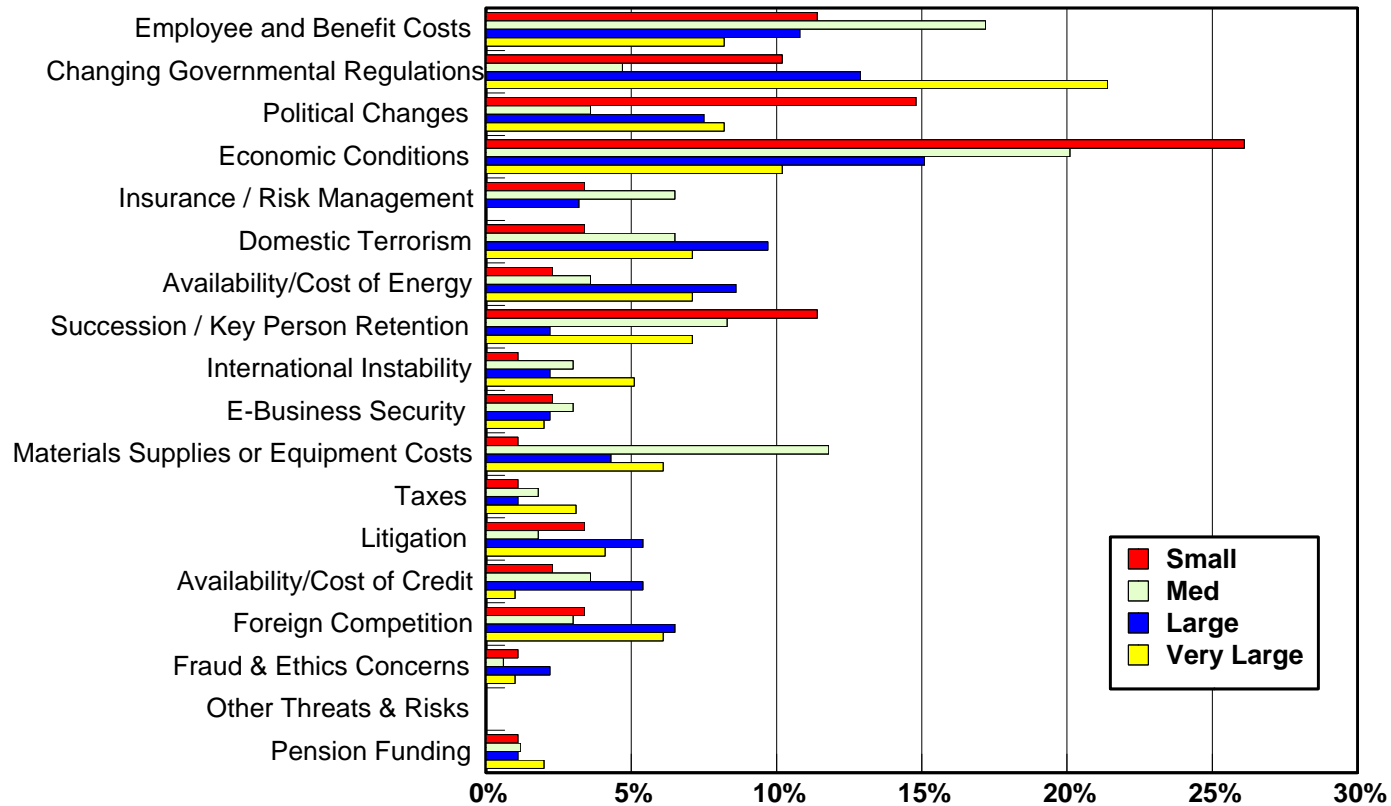
Respondents who marked that they were "Extremely" or "Very" Concerned about more than one area were then shown a list of all the areas that they had so marked, and asked which was the "Most" concerning to them. The results of this question are presented on the following page. Note that:

- ❖ Respondents who indicated only one area of "Extremely" or "Very" Concerned had the appropriate response coded as "primary".
- ❖ Approximately 70 respondents (13% of respondents) had no area where they were "Extremely" or "Very" Concerned. These respondents were not asked these questions. Thus, the following results likely exclude those respondents with the most positive outlook about the economy.

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Which of the following are you MOST concerned about? (by organization size)



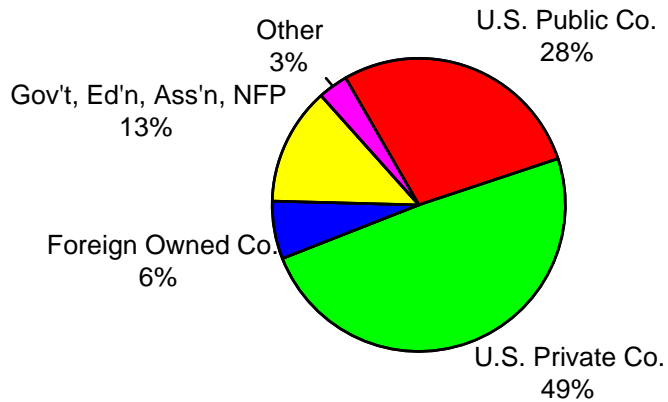
- ❖ Economic Conditions are the primary concern of Small (26%), Medium (20%), and Large (15%) organizations. Very Large (10%) are less likely to find Economic Conditions primary.
- ❖ Very large organizations are most concerned with "Changing Government Regulations" (22%).
- ❖ Large organizations are somewhat more likely to be concerned about "Domestic Terrorism" (9%)
- ❖ Medium organizations are more likely to find "Employee and Benefit Costs" (17%) and Materials Supplies..." (12%) primary than other classes.
- ❖ Small organizations are more likely to find "Succession..." and "Political Changes" to be primary.

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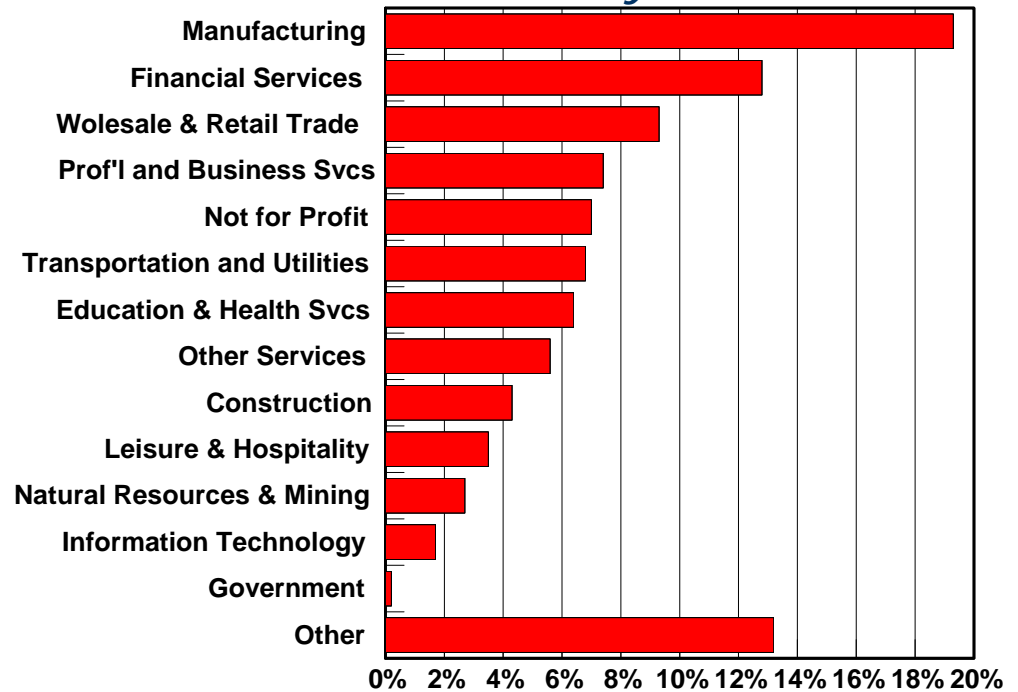


About the Respondents

Organization Type



Industry

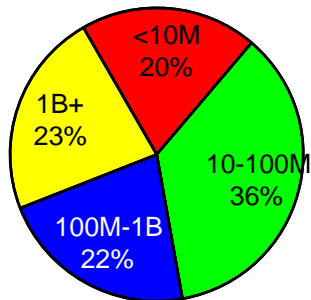


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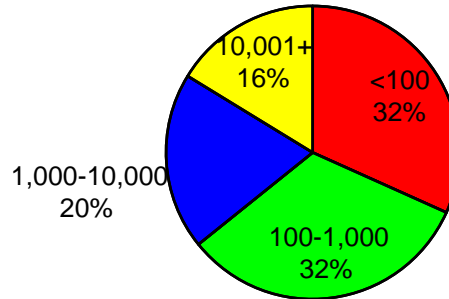


About the Respondents (continued)

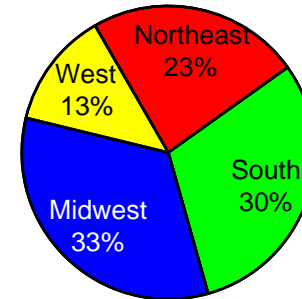
Total Annual Revenues



Number of Employees



Region

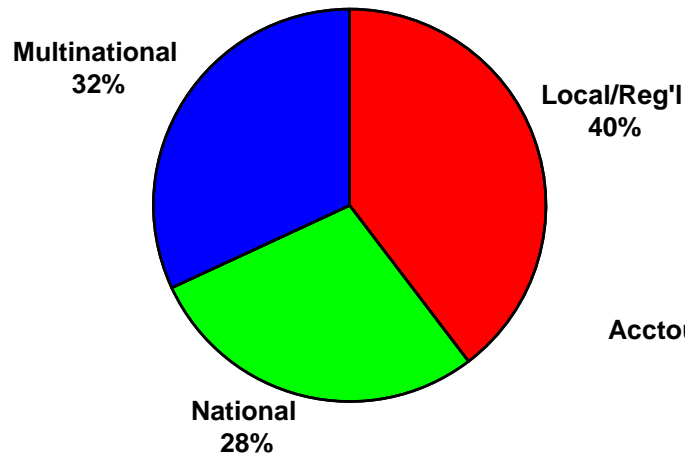


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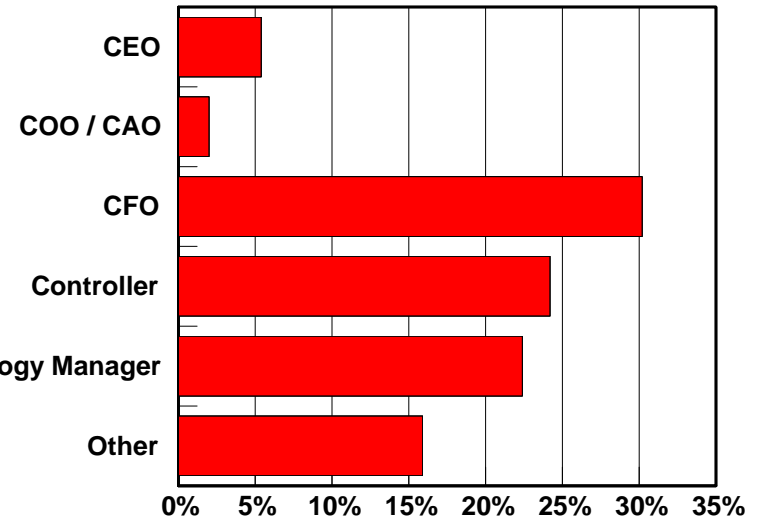


About the Respondents (continued)

Geographic Scope



Title / Position



Business and Economic Outlook Survey

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