

**AICPA / UNC Kenan-Flagler Business School
Business and Industry
Economic Outlook Survey
1Q 2008**

Detailed Survey Results

Survey Background

- Conducted between January 18, 2008 to February 10, 2008
- CPA decision makers (primarily CFOs, CEOs & Controllers)
- AICPA members in Business & Industry only
- 1640 total responses; 1553 qualified responses
- Note: survey conducted quarterly beginning in 2007, semi-annually in 2005 and 2006;

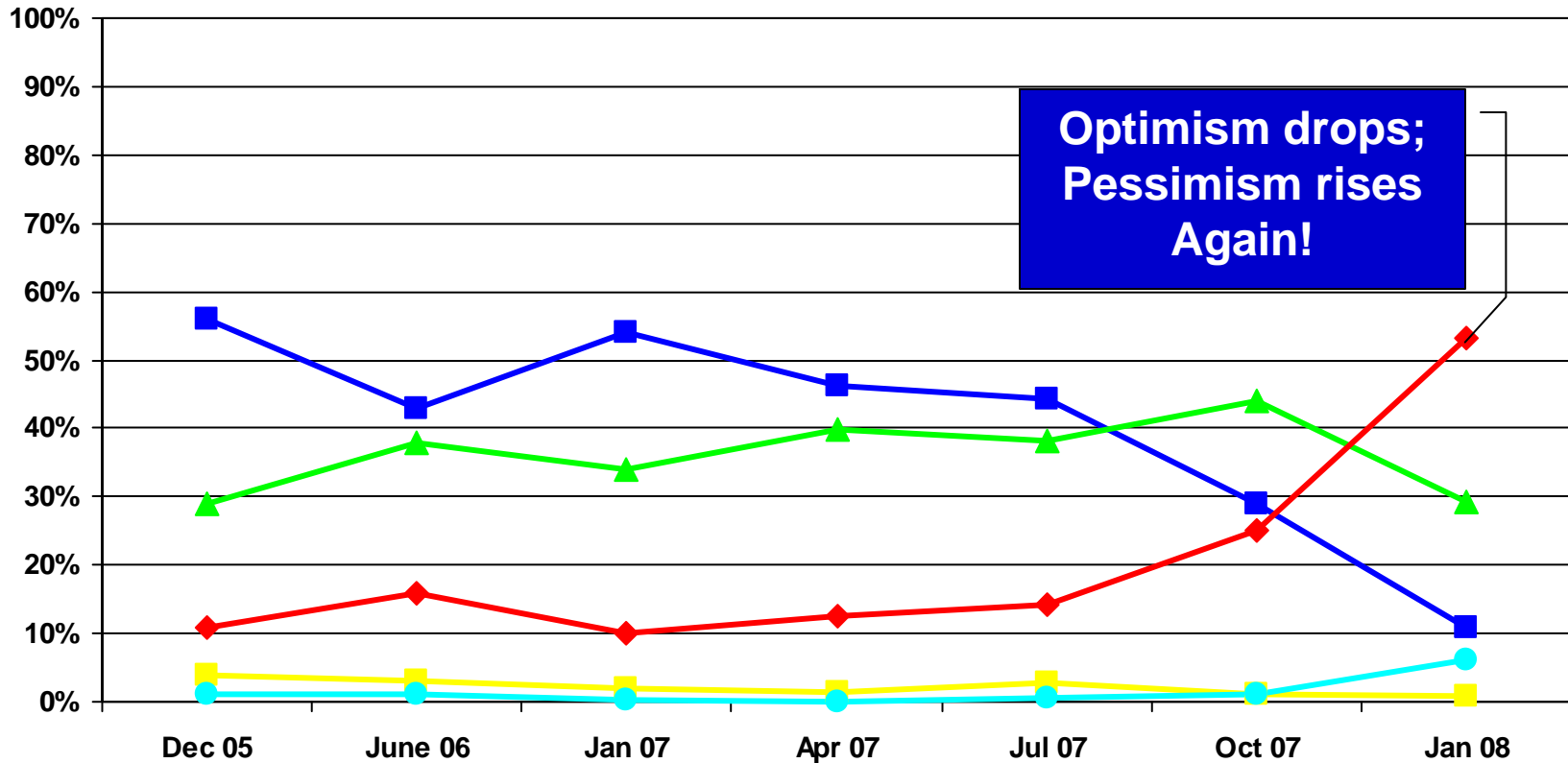
US Economy

- **Optimism for the US economy continued to decline sharply**
 - Continues downward trend that began in 2007
 - For the first time the number of pessimists exceeded the number of optimists.
 - Pessimists exceeded optimists by an almost 5 to 1 margin
- **Optimism varied somewhat across industries**
 - The Construction industry which had been one of the most optimistic in the 4Q 2007 survey is now one of the least optimistic.
 - Finance & Insurance, Retail Trade and Manufacturing were most pessimistic

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.

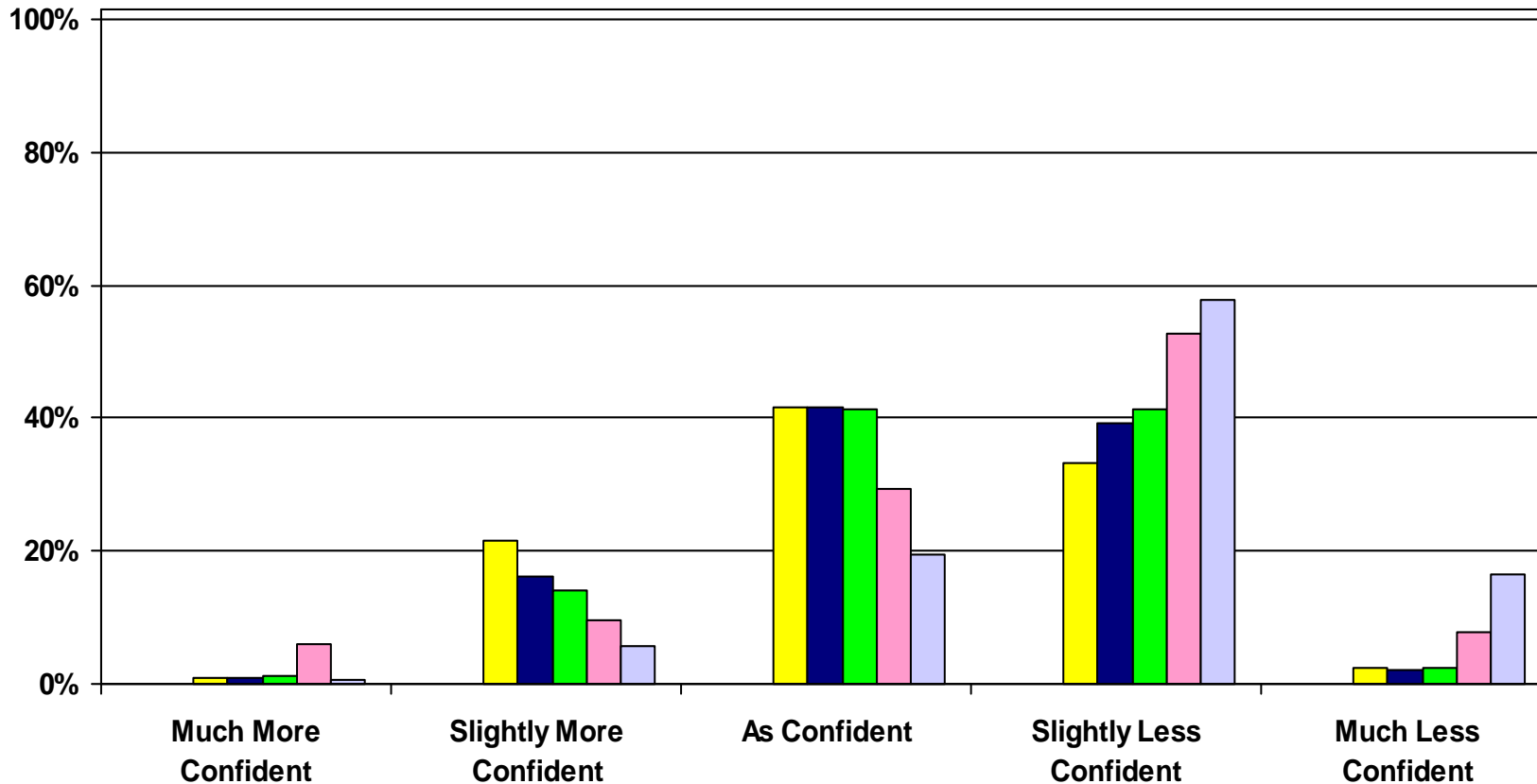
Very Optimistic Optimistic Neutral Pessimistic Very Pessimistic



Change in View US Economic Outlook

Please indicate how your view has changed from the previous quarter.

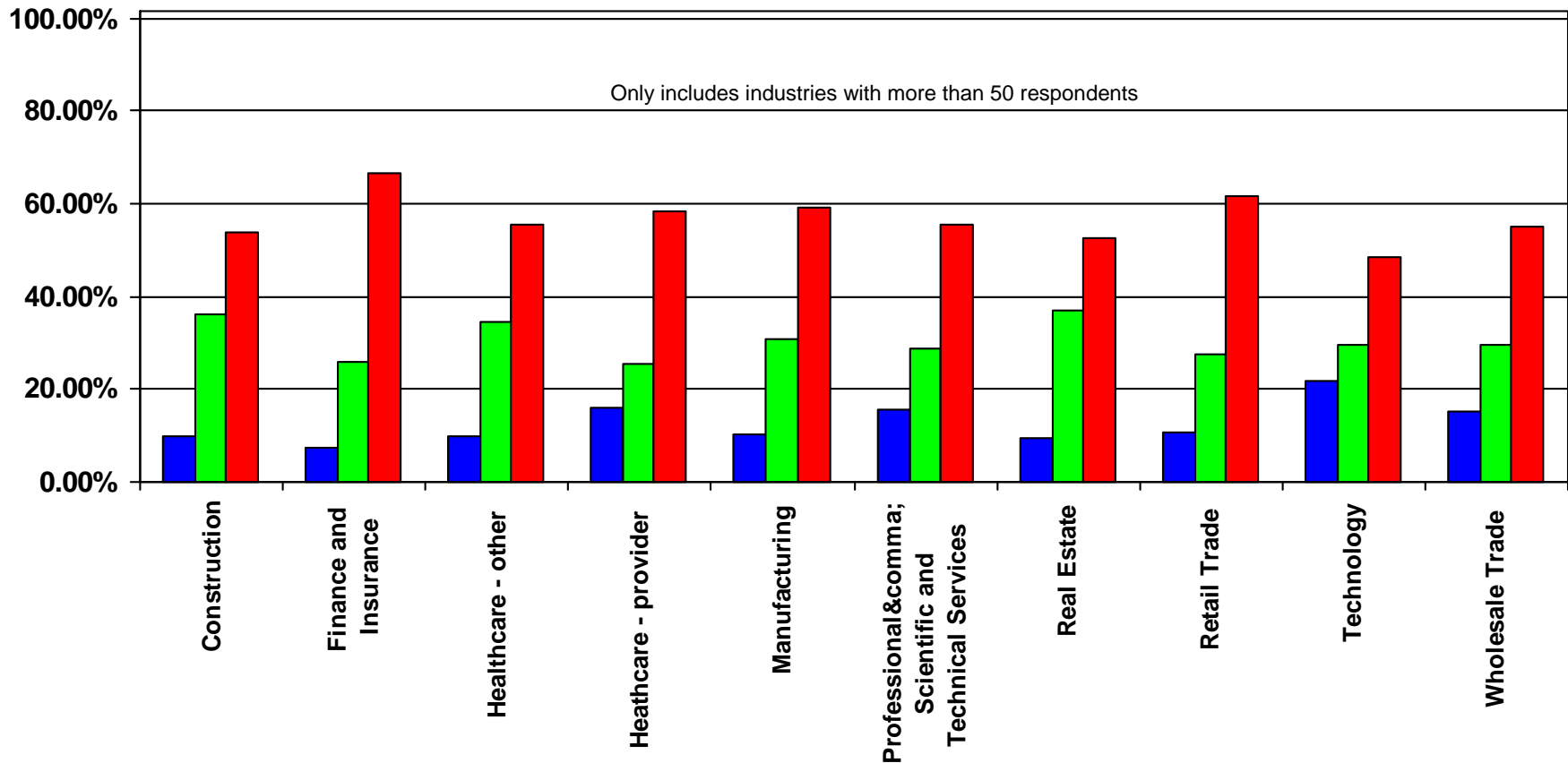
■ Dec 05 ■ June 06 ■ Jan 07 ■ Apr 07 ■ Jul 07 ■ Oct 07 ■ Jan 08



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.

Optimistic Neutral Pessimistic



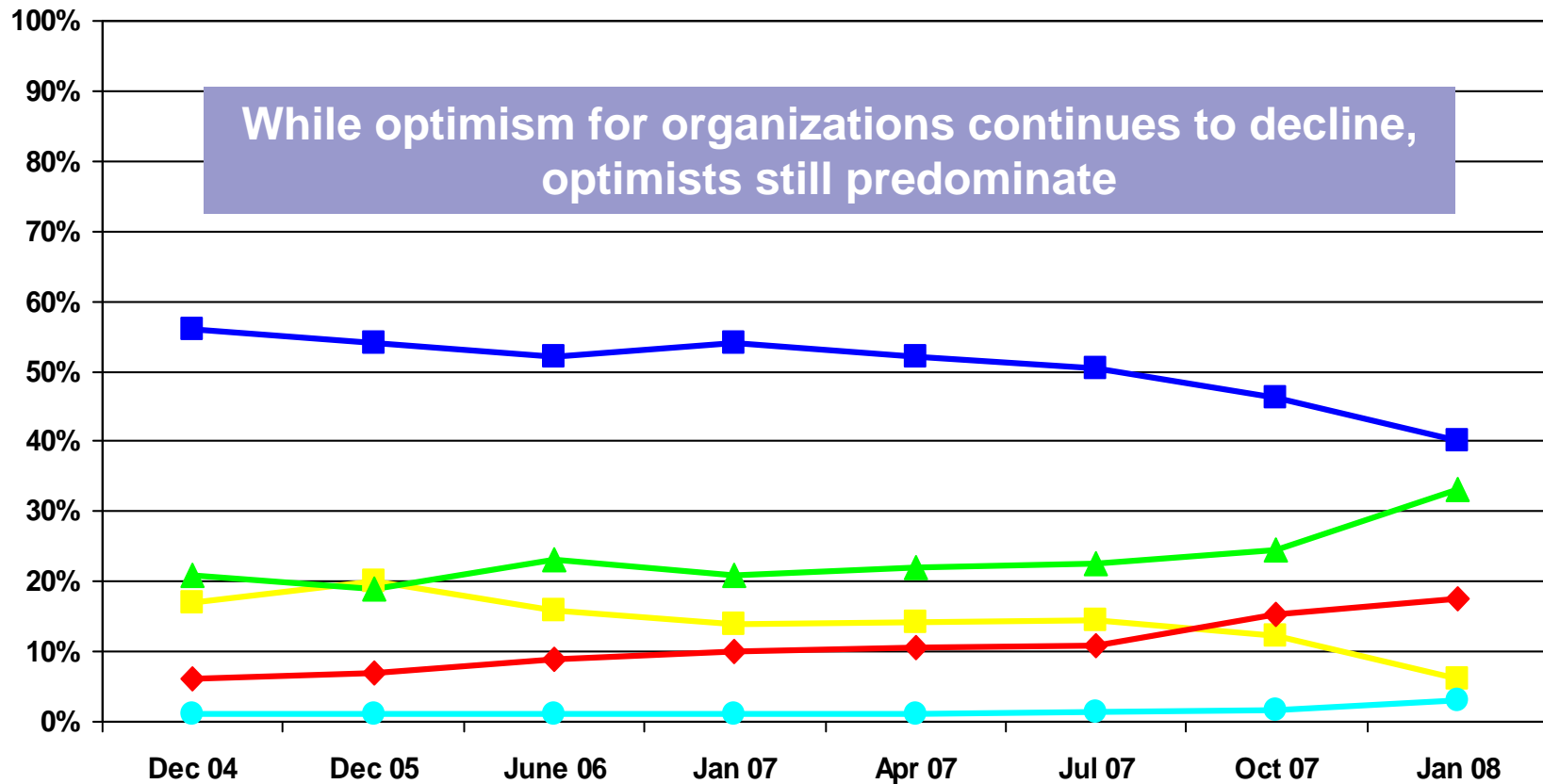
Your Own Organization

- **Optimism for respondents own organizations dropped**
 - Continues downward trend that began in 2007
 - Optimists still exceed pessimists by a 2 to 1 margin
- **Optimism varied somewhat across industries**
 - Technology is the most optimistic industry followed by Construction, Healthcare -- Non-provider & Wholesale Trade
 - Real Estate and Retail Trade had the most pessimists

Economic Prospects for Your Own Organization

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

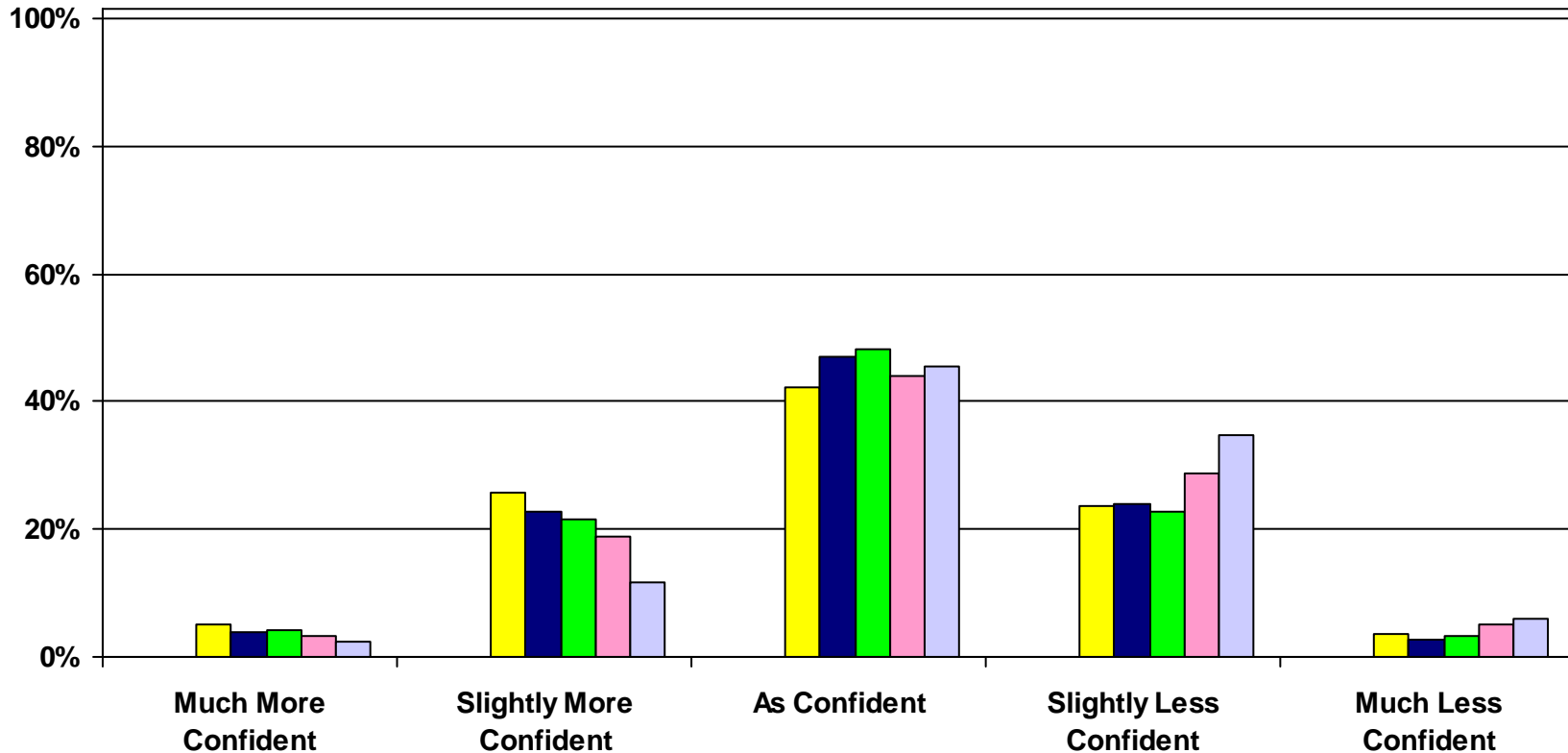
Very Optimistic Optimistic Neutral Pessimistic Very Pessimistic



Change in View Prospects for own Organization

Please indicate how your view has changed from the previous quarter.

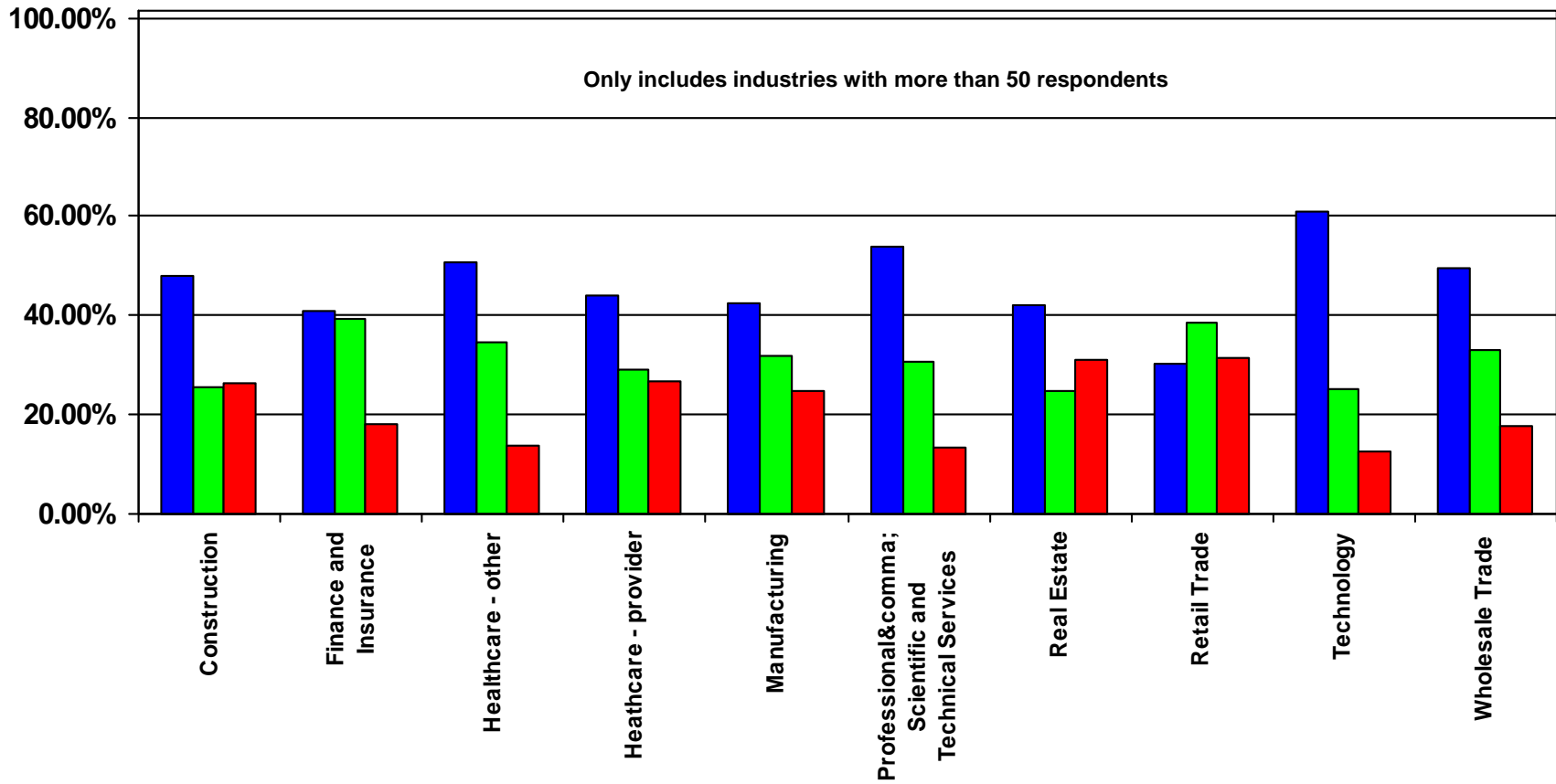
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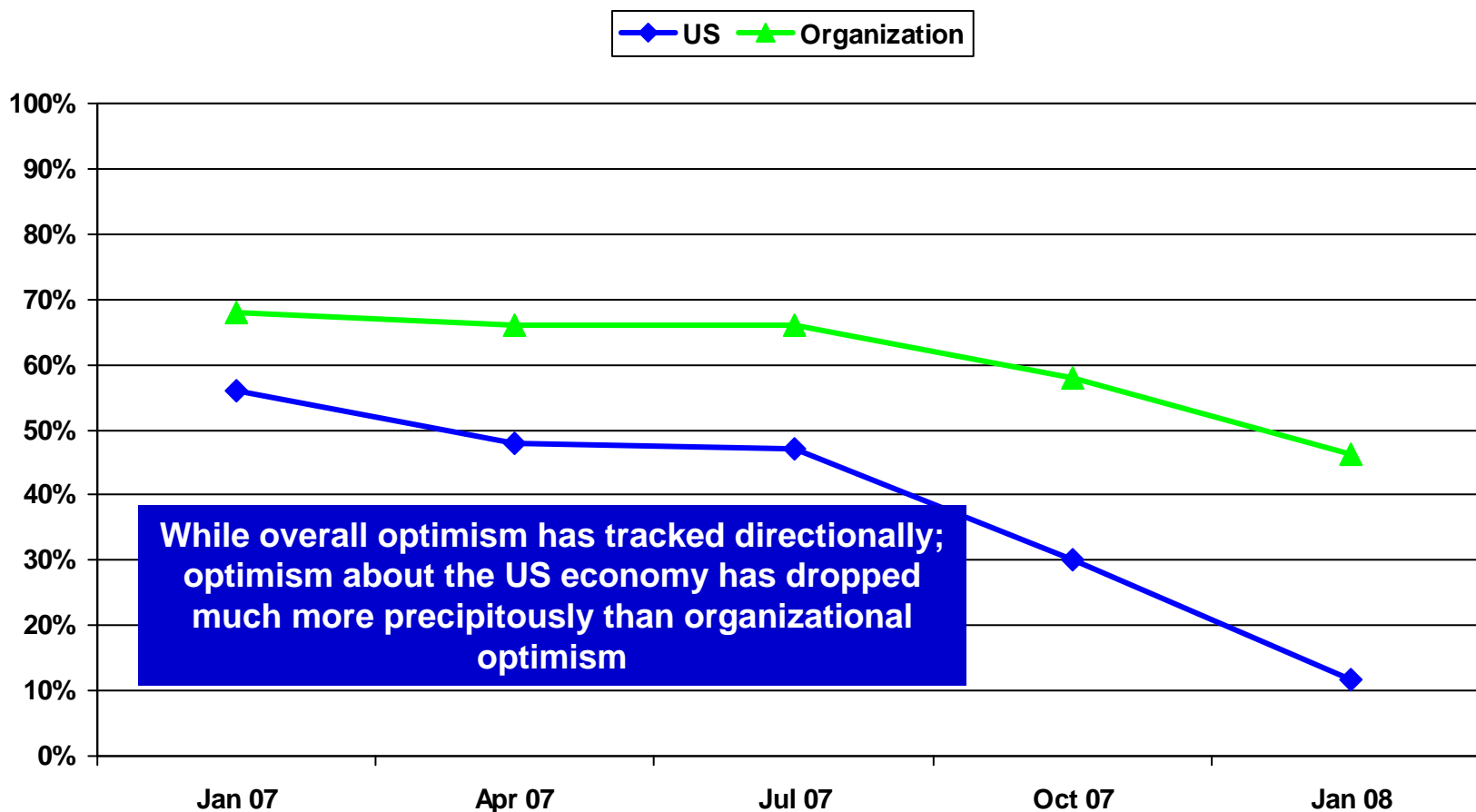
Prospects For Your Own Organization by Industry

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

Optimistic Neutral Pessimistic



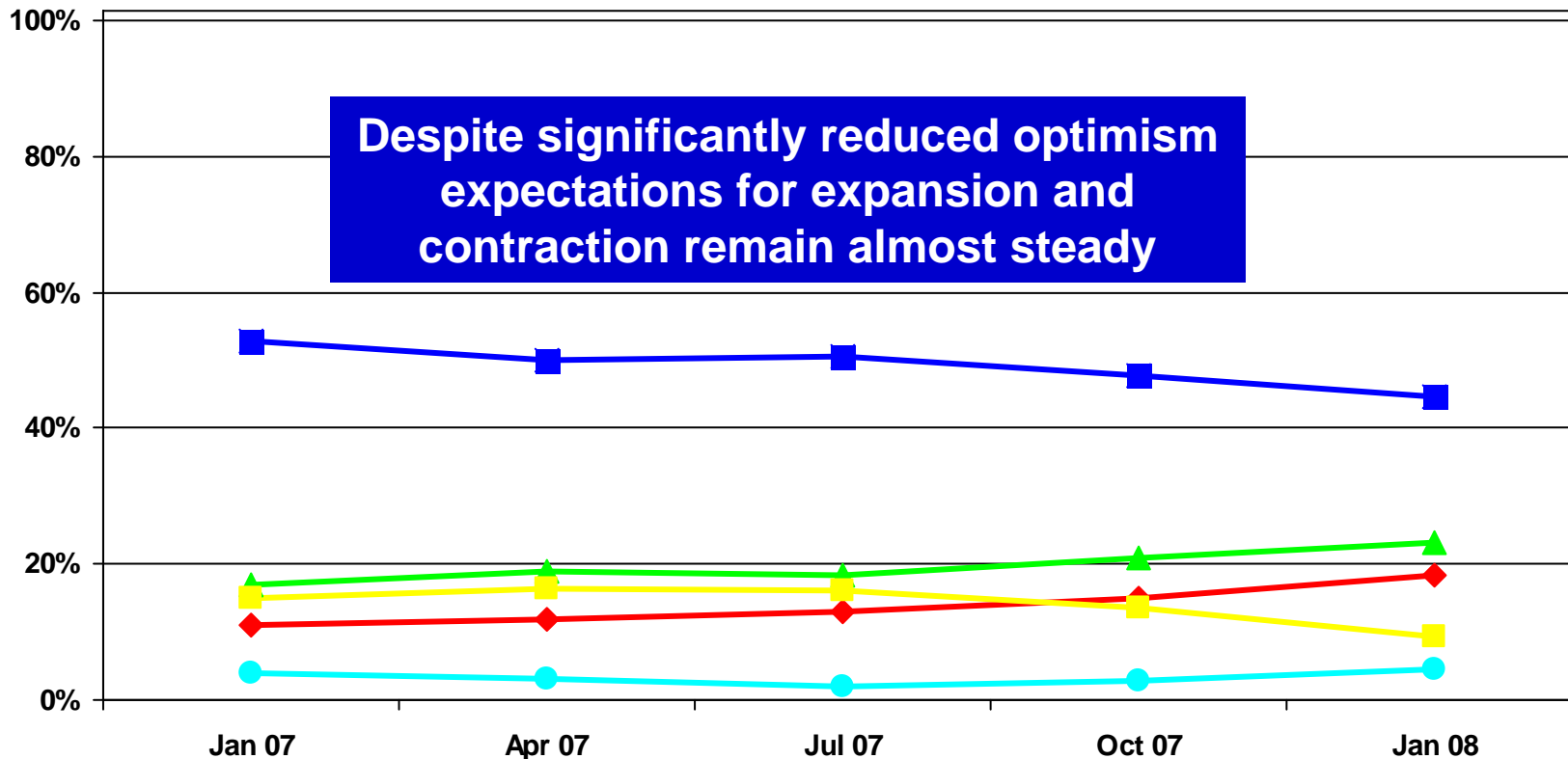
Economic Outlook vs. Prospects for Own Organization Comparison of Respondent Optimism



Expansion/Contraction of Your Own Organization

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

Contract a lot Contract a little Stay the same Expand a little Expand a lot



Expected Business Growth – Next 12 Months

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

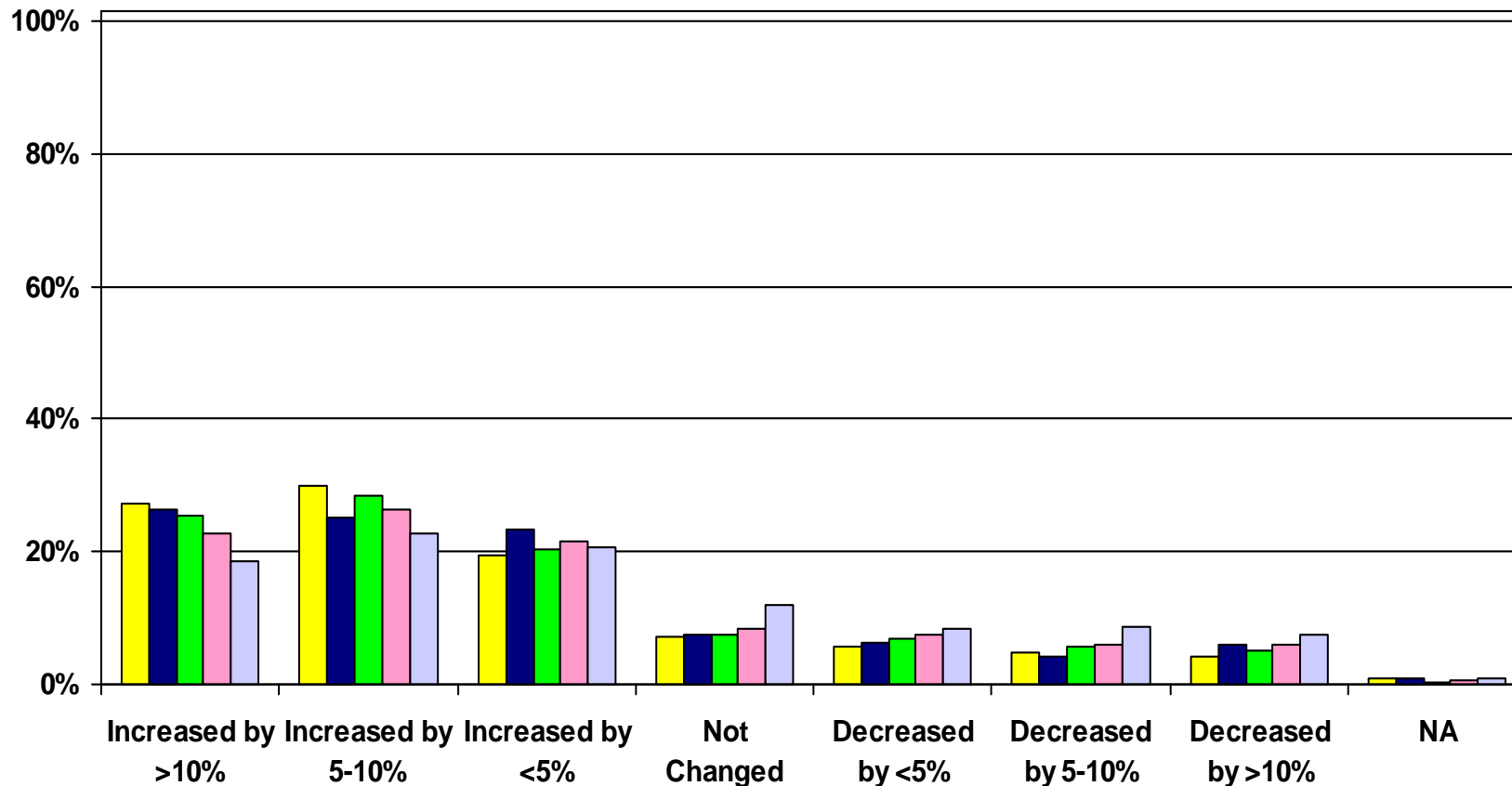
- Expectations for revenue & profit growth are down slightly, but most organizations still expect some growth
- Most companies still expect to hire employees, and that employee salary and benefit costs will increase.
- Professional services and Technology are most likely to hire, while Real Estate and Retail Trade are least likely.
- Healthcare costs are expected to increase, but the % of organizations expecting increases over 4% has decreased.
- Spending Plans remain fairly stable, although there are some slight declines in some spending categories, notably staff development and training.

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)

■ Jan 07
 ■ Apr 07
 ■ Jul 07
 ■ Oct 07
 ■ Jan 08

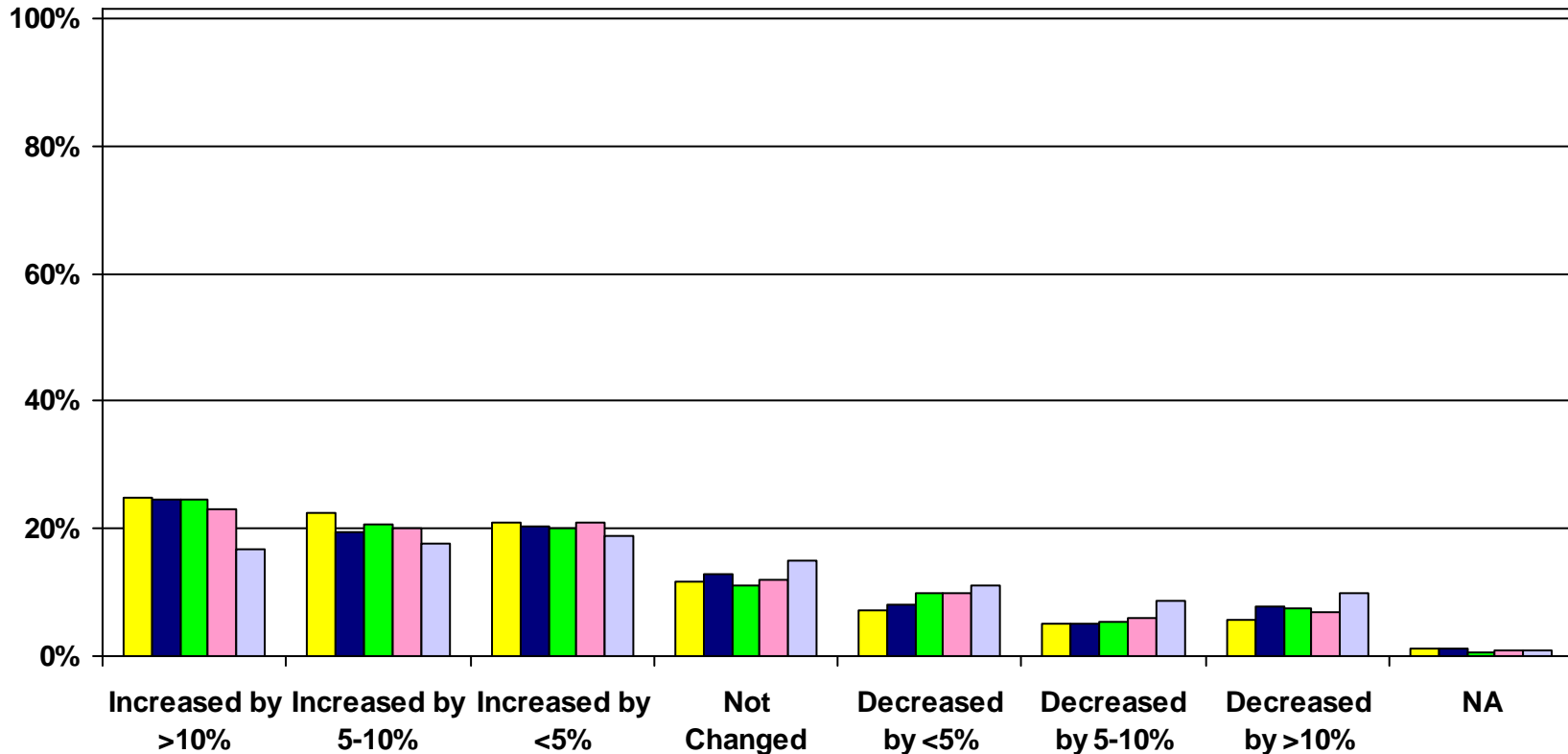


Key Performance Indicators

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
 ■ Oct 07
 ■ Jan 08

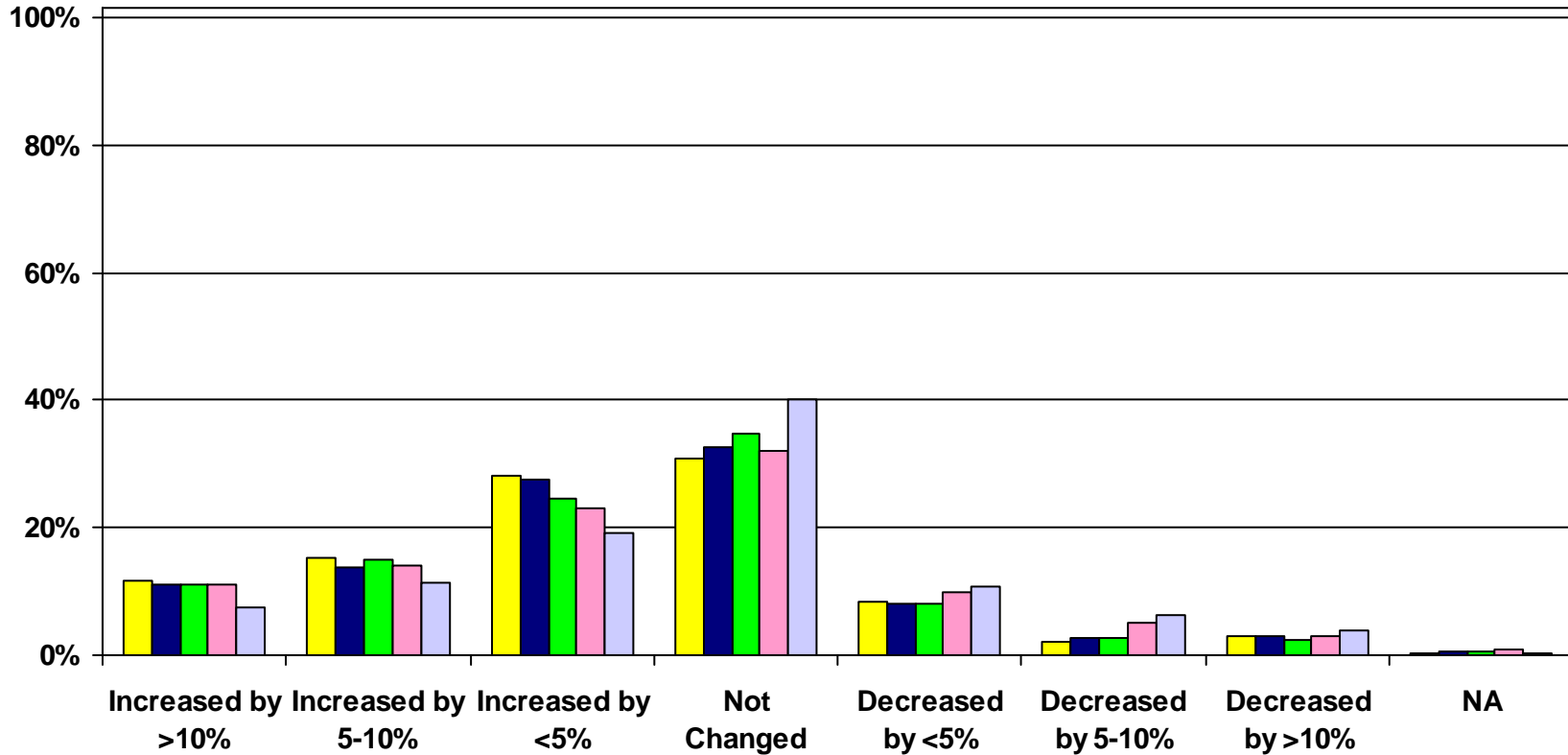


Key Performance Indicators

Number of Employees

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

Jan 07 Apr 07 Jul 07 Oct 07 Jan 08



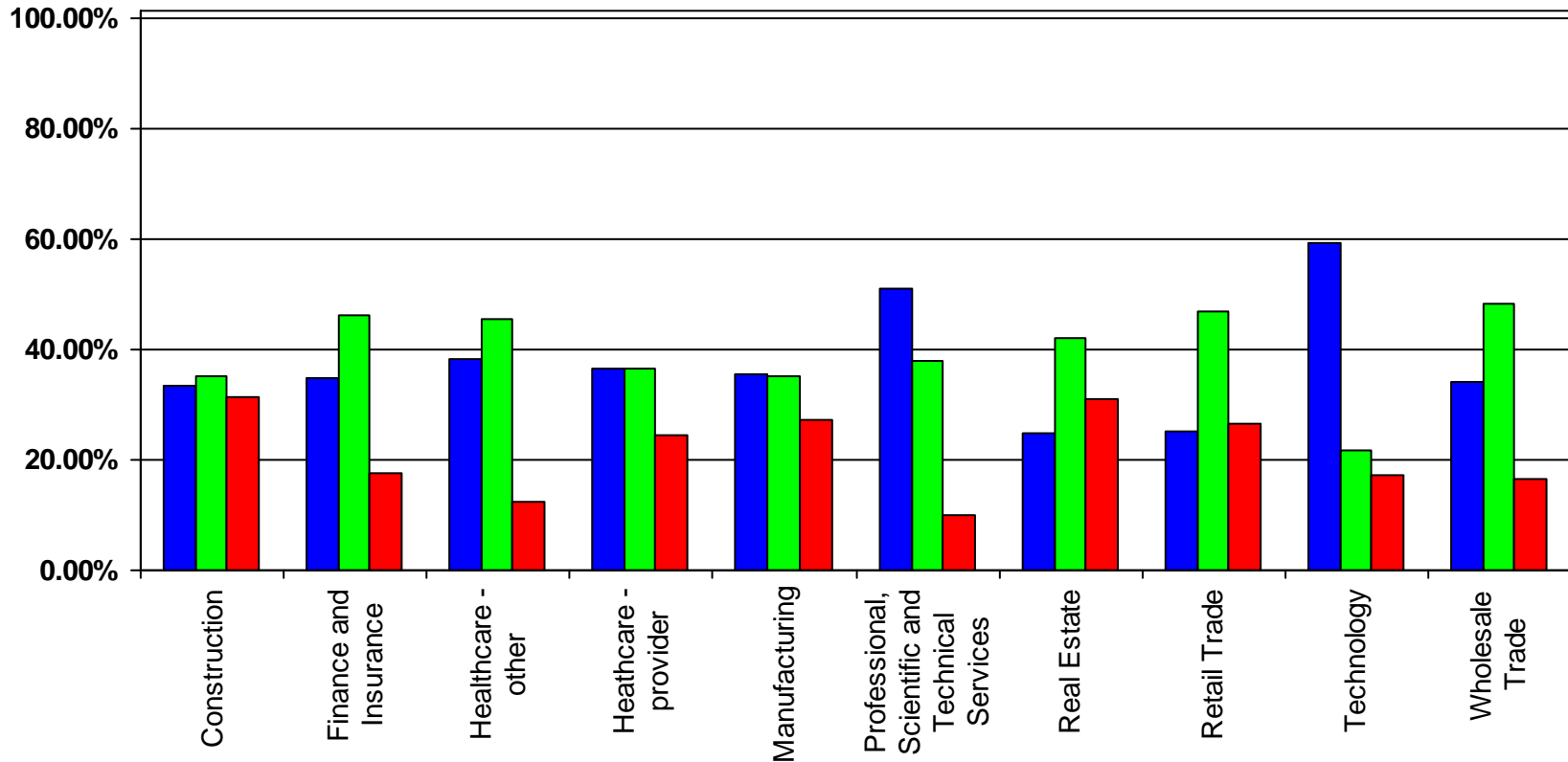
Key Performance Indicators

Number of Employees

by industry

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

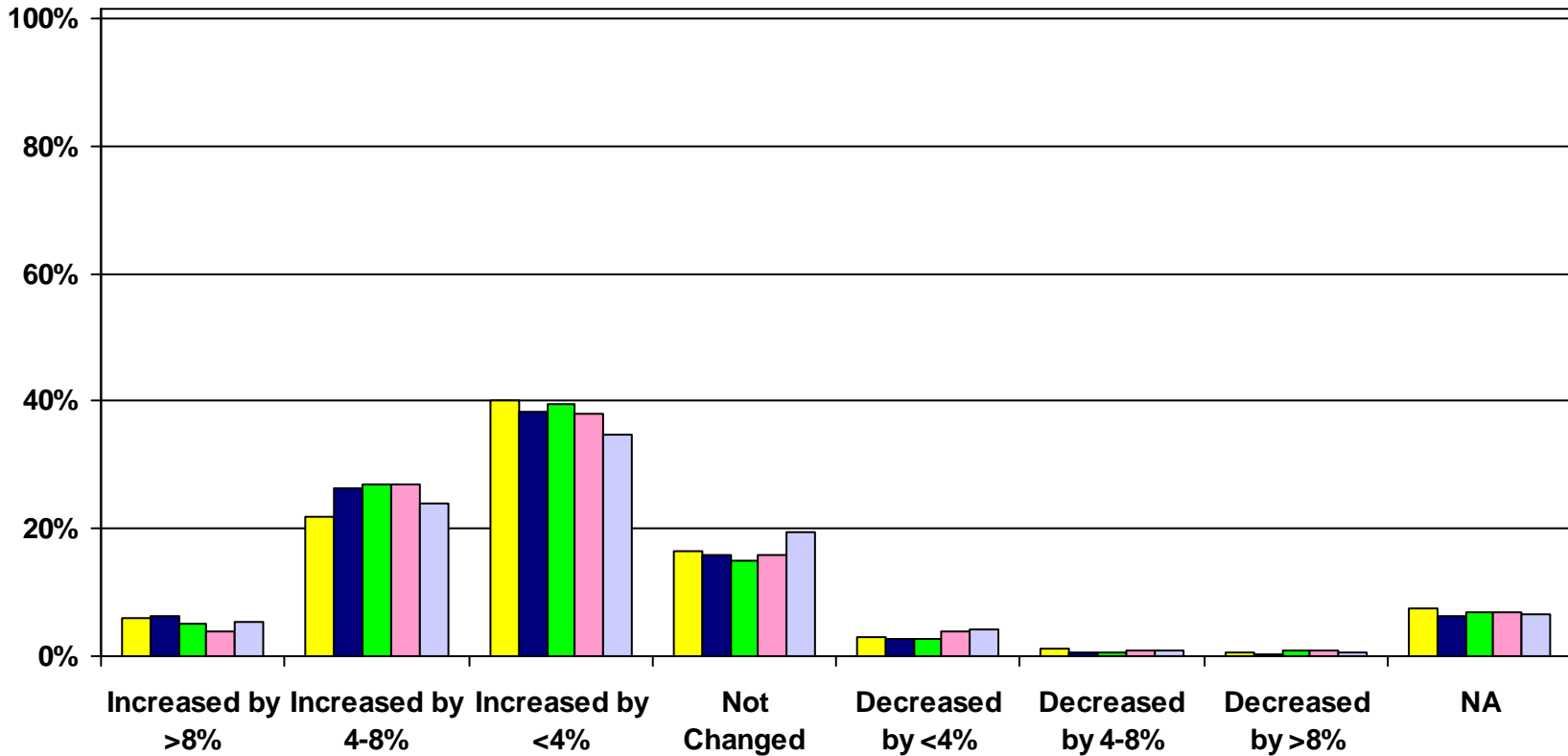
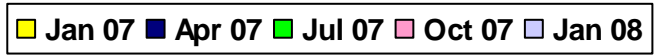
■ Increase ■ No Change ■ Decrease



Pricing & Costs

Input Prices

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

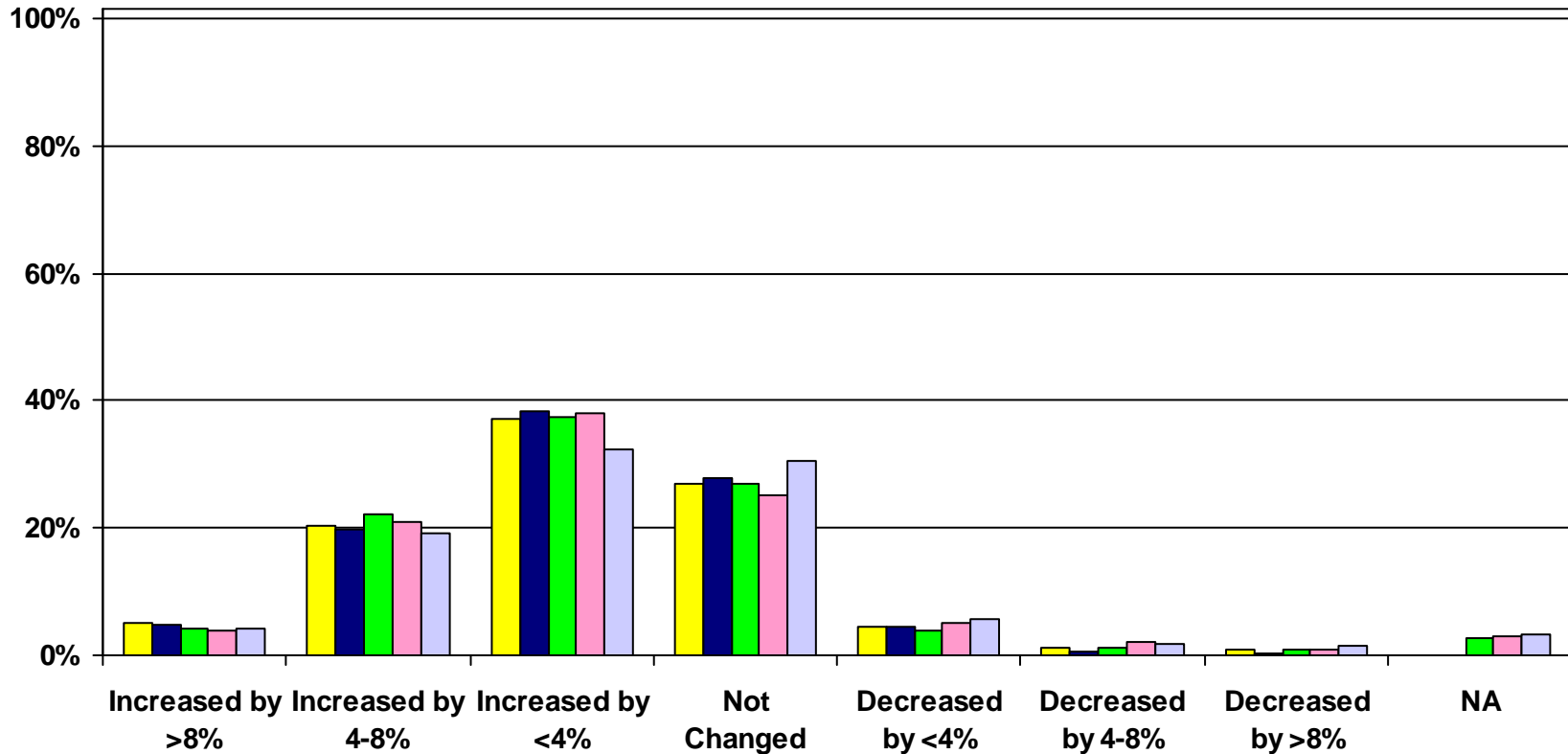


Pricing & Costs

Prices your Organization Charges

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

Jan 07 Apr 07 Jul 07 Oct 07 Jan 08

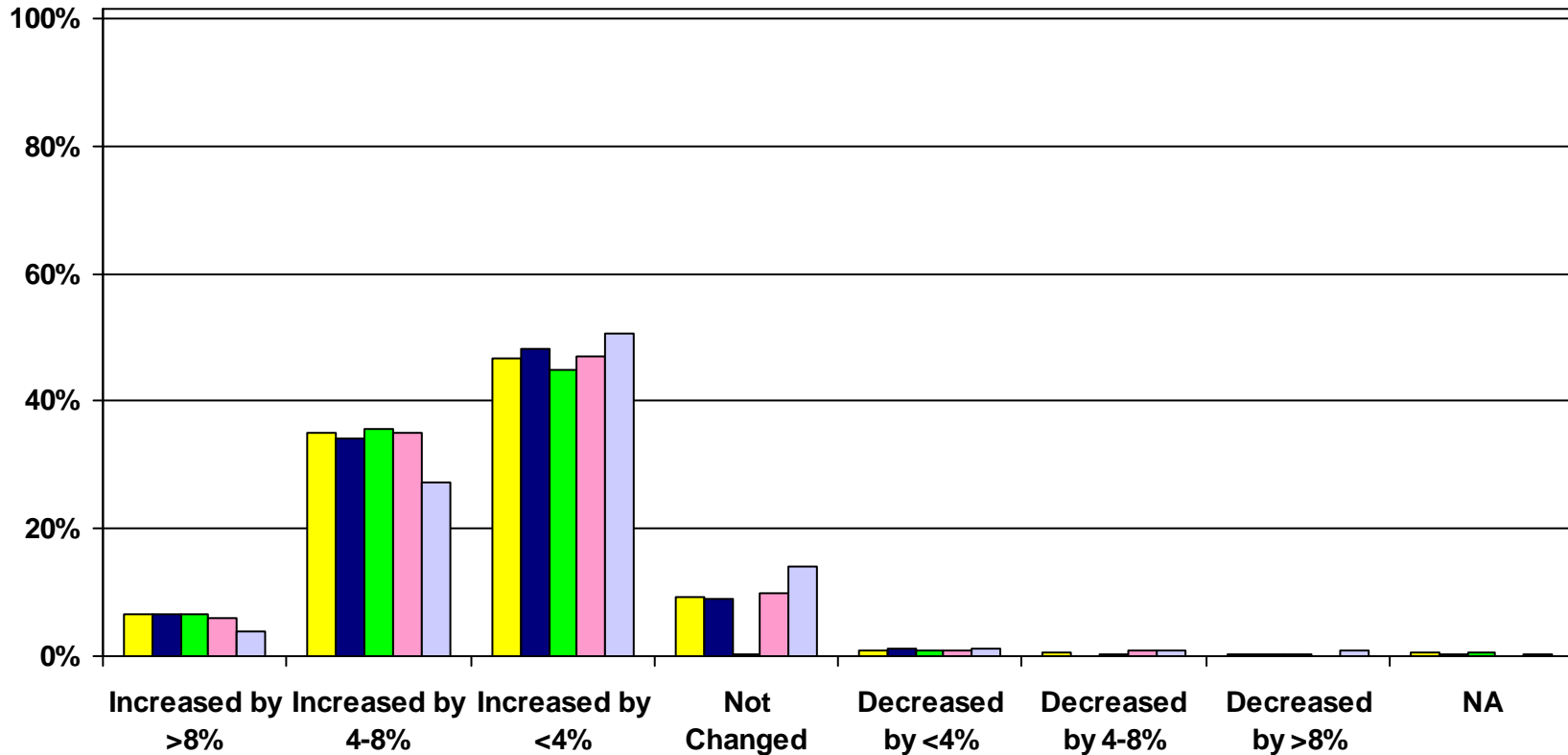


Pricing & Costs

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
 ■ Oct 07
 ■ Jan 08

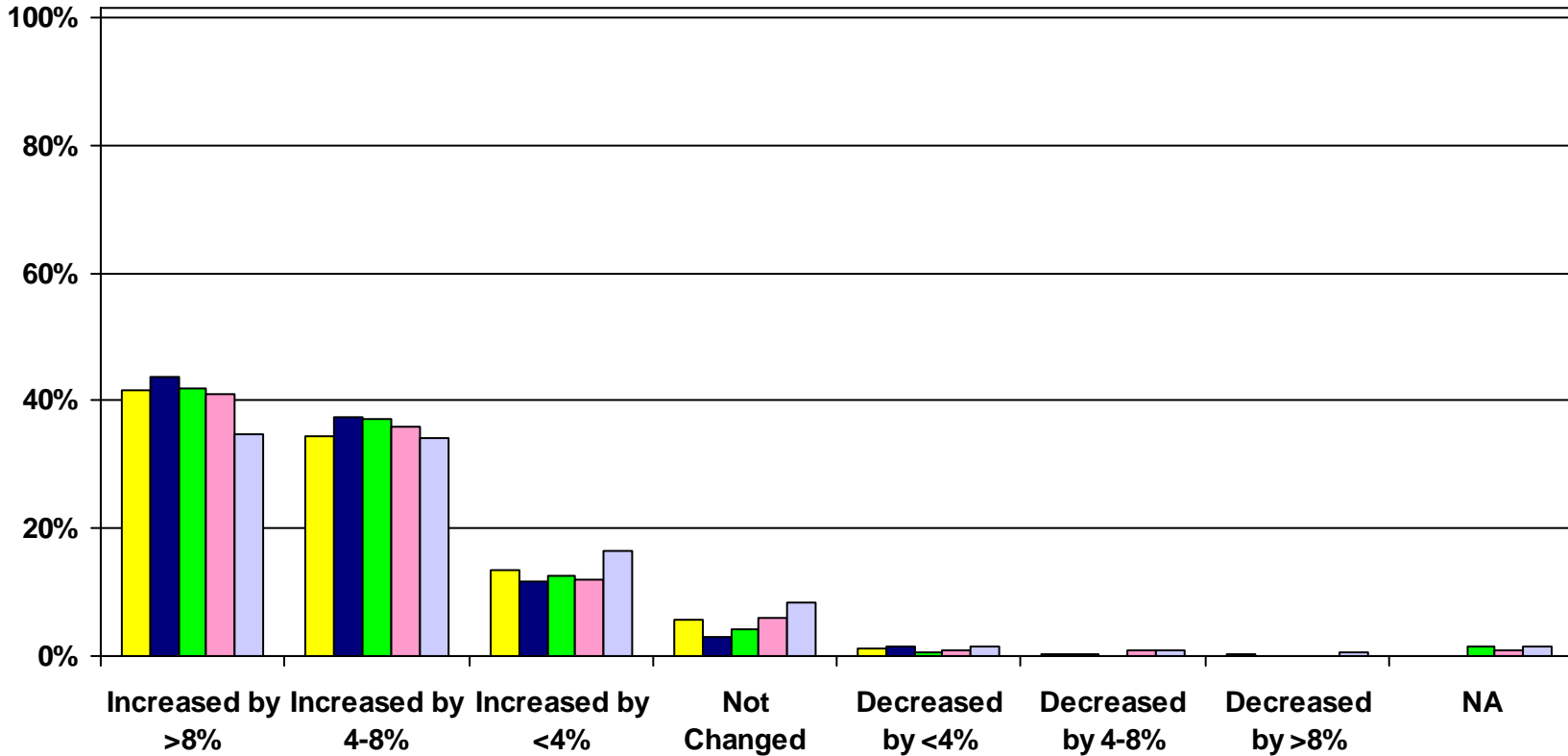


Pricing & Costs

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 Oct 07 Jan 08

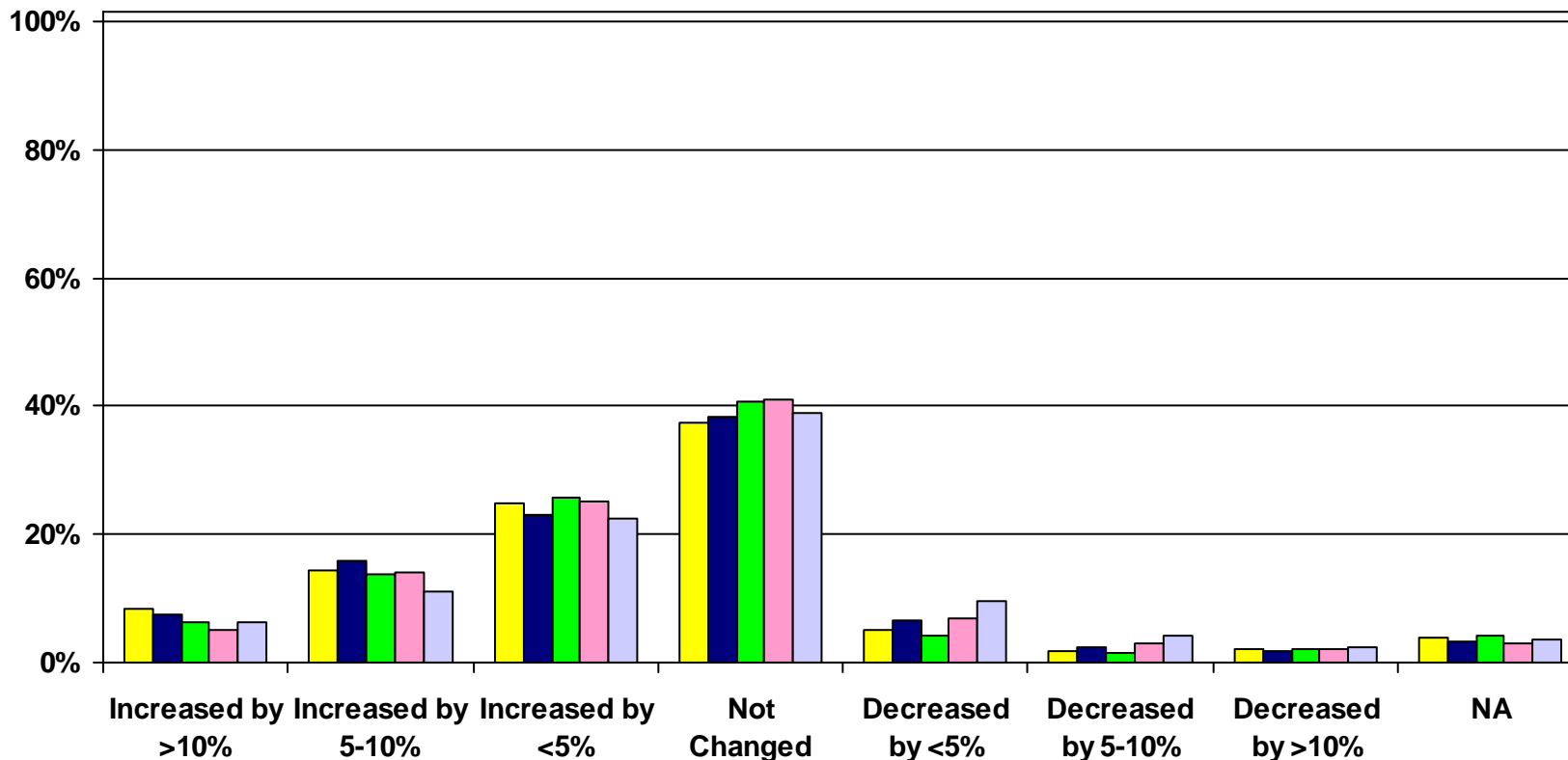


Spending Plans

Advertising, Sales & Marketing

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

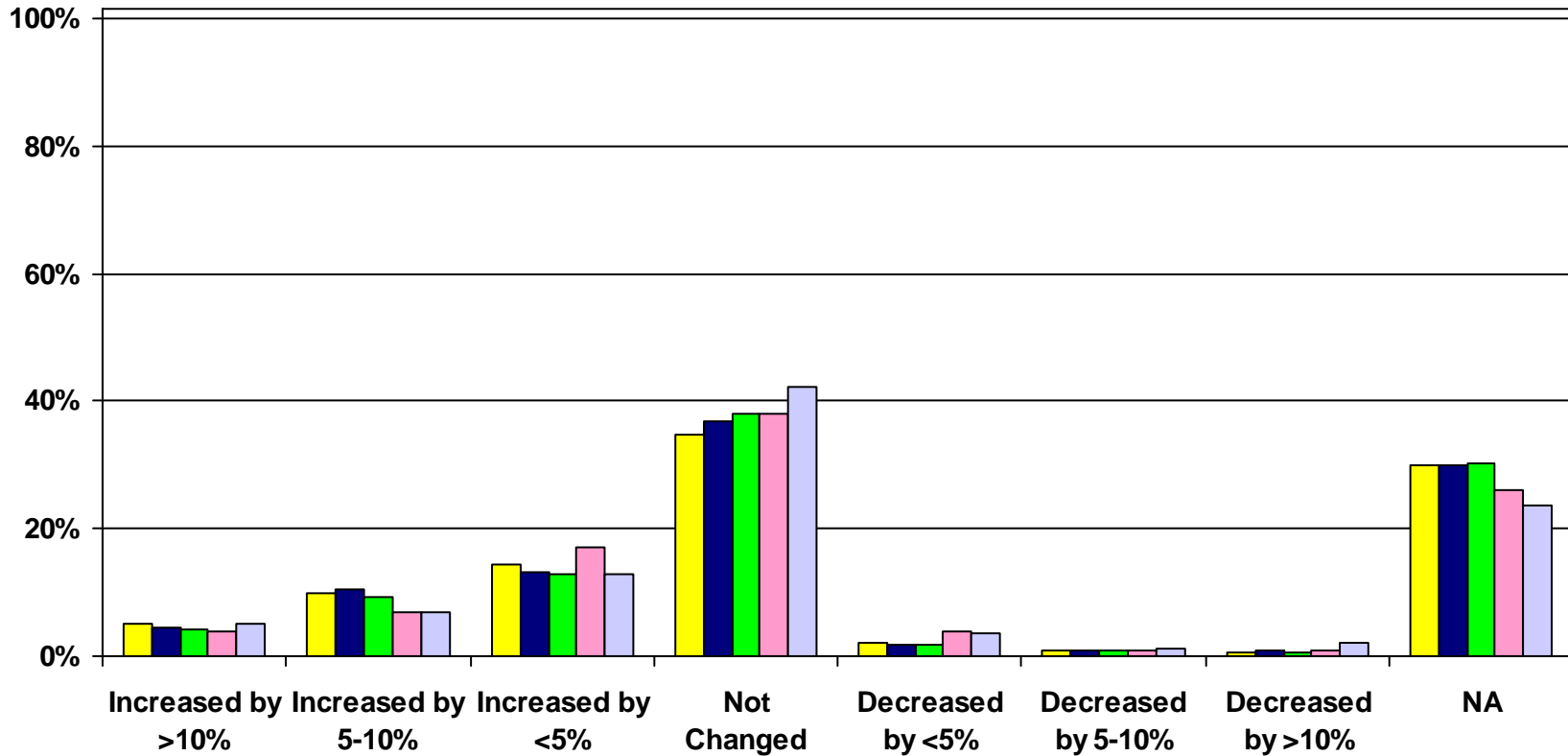
Jan 07 Apr 07 Jul 07 Oct 07 Jan 08



Spending 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

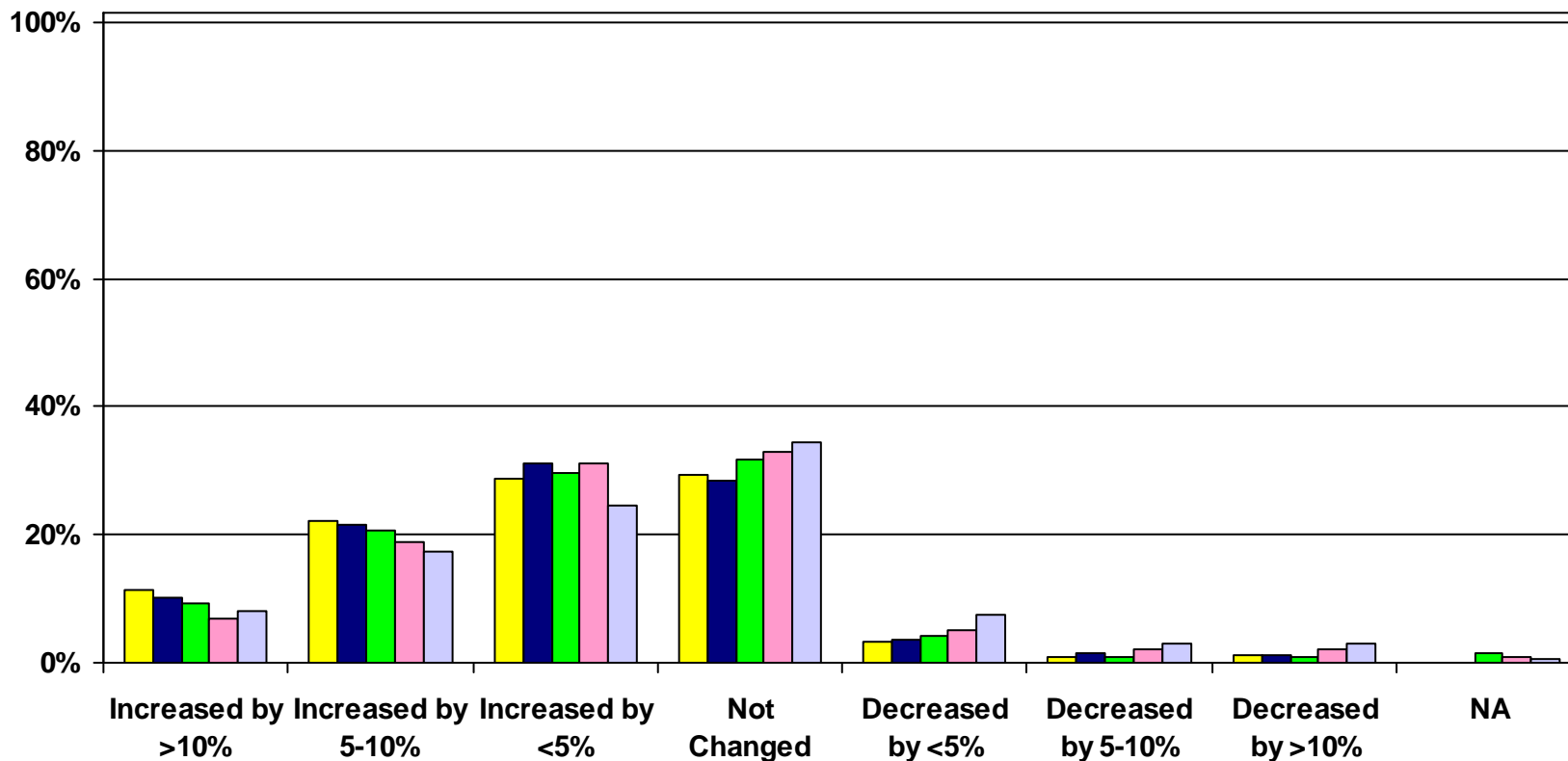
■ Jan 07
 ■ Apr 07
 ■ Jul 07
 ■ Oct 07
 ■ Jan 08



Spending Plans Information Technology

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

Jan 07 Apr 07 Jul 07 Oct 07 Jan 08

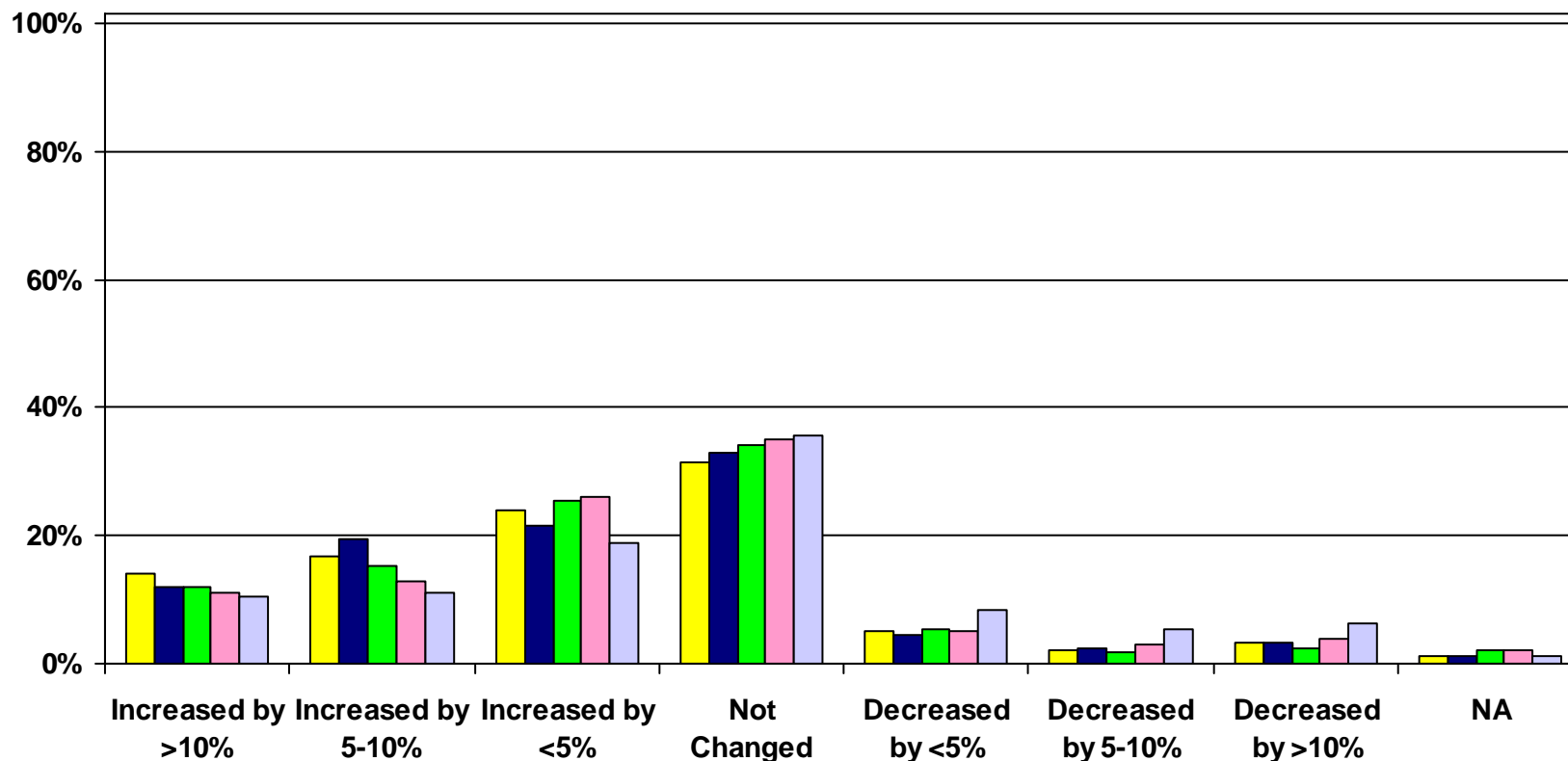


Spending Plans

Other Capital Investment

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

Jan 07 Apr 07 Jul 07 Oct 07 Jan 08

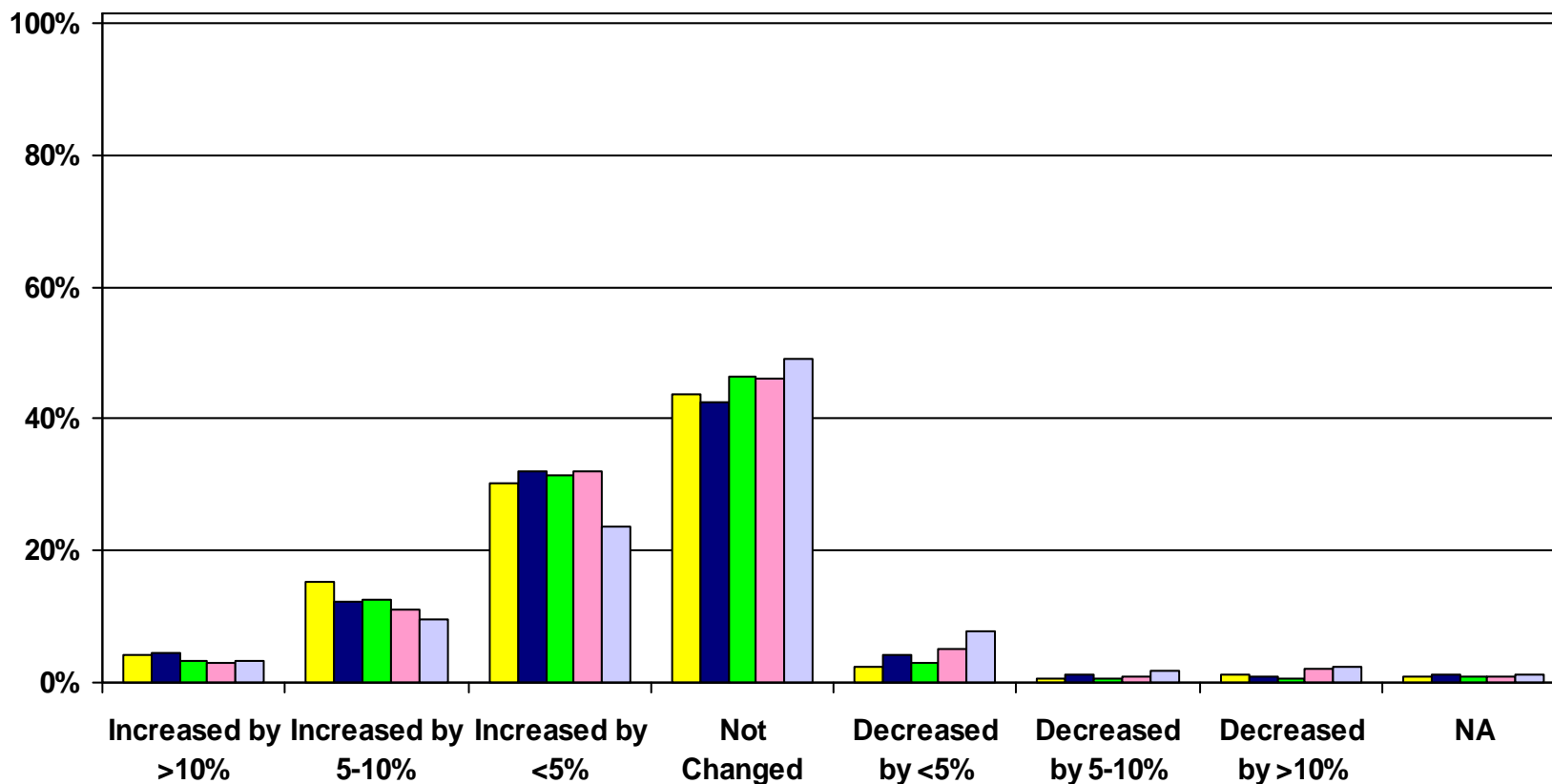


Spending Plans

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

■ Jan 07
 ■ Apr 07
 ■ Jul 07
 ■ Oct 07
 ■ Jan 08



Top three challenges facing US policy-makers

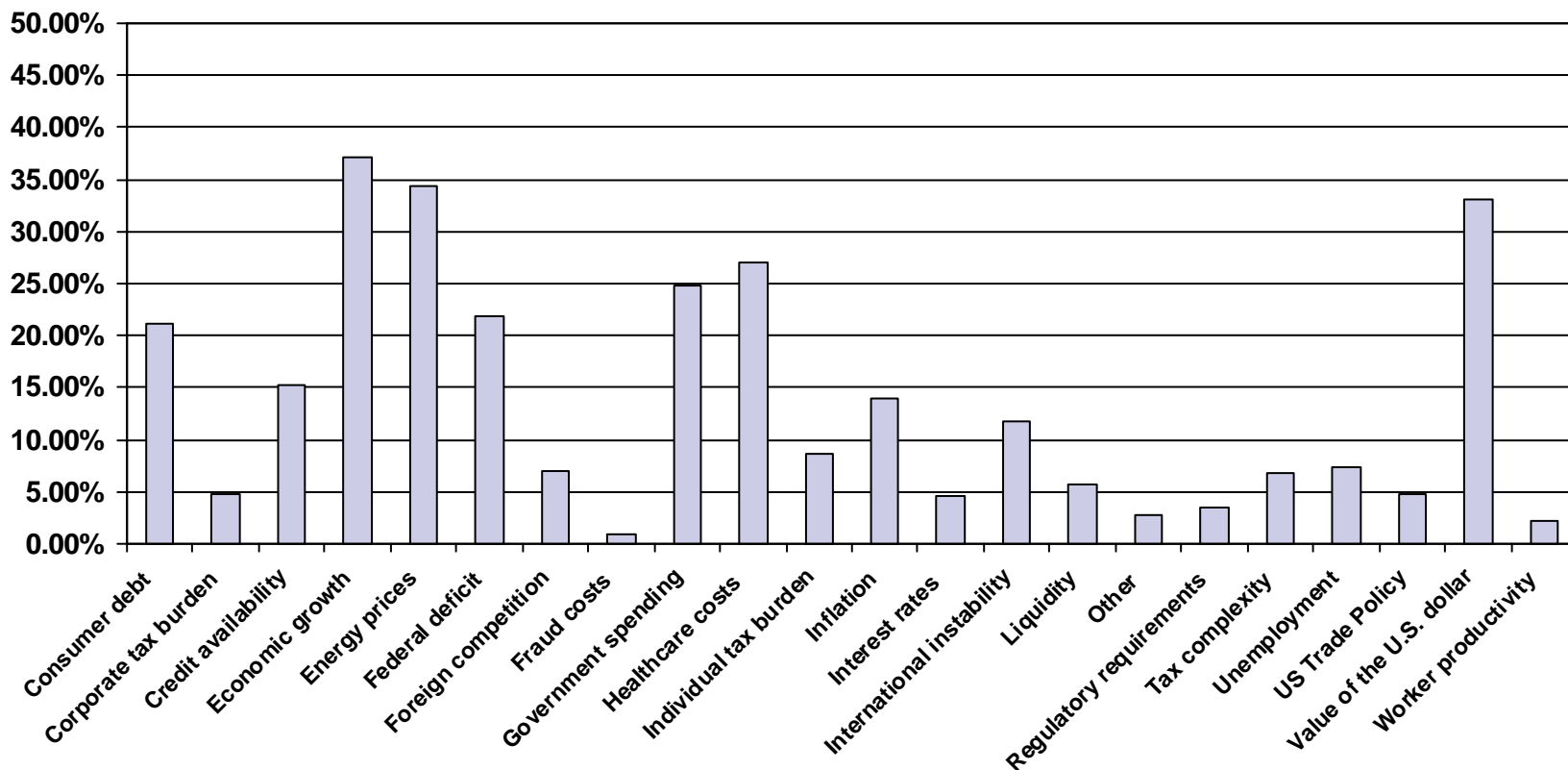
- The top three challenges facing US policy-makers are:
 - Economic growth
 - Energy prices
 - Value of the dollar
- Other challenges noted by over 20% of respondents included healthcare costs, government spending, the federal deficit and consumer debt

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

Top Three Economic Challenges Facing the US Policy Makers in the next 12 months.

Please indicate the top three economic challenges facing U.S. policy makers in the next twelve months. Note: Each respondent provided three challenges so totals are greater than 100%

Jan 08



Top three challenges facing organizations

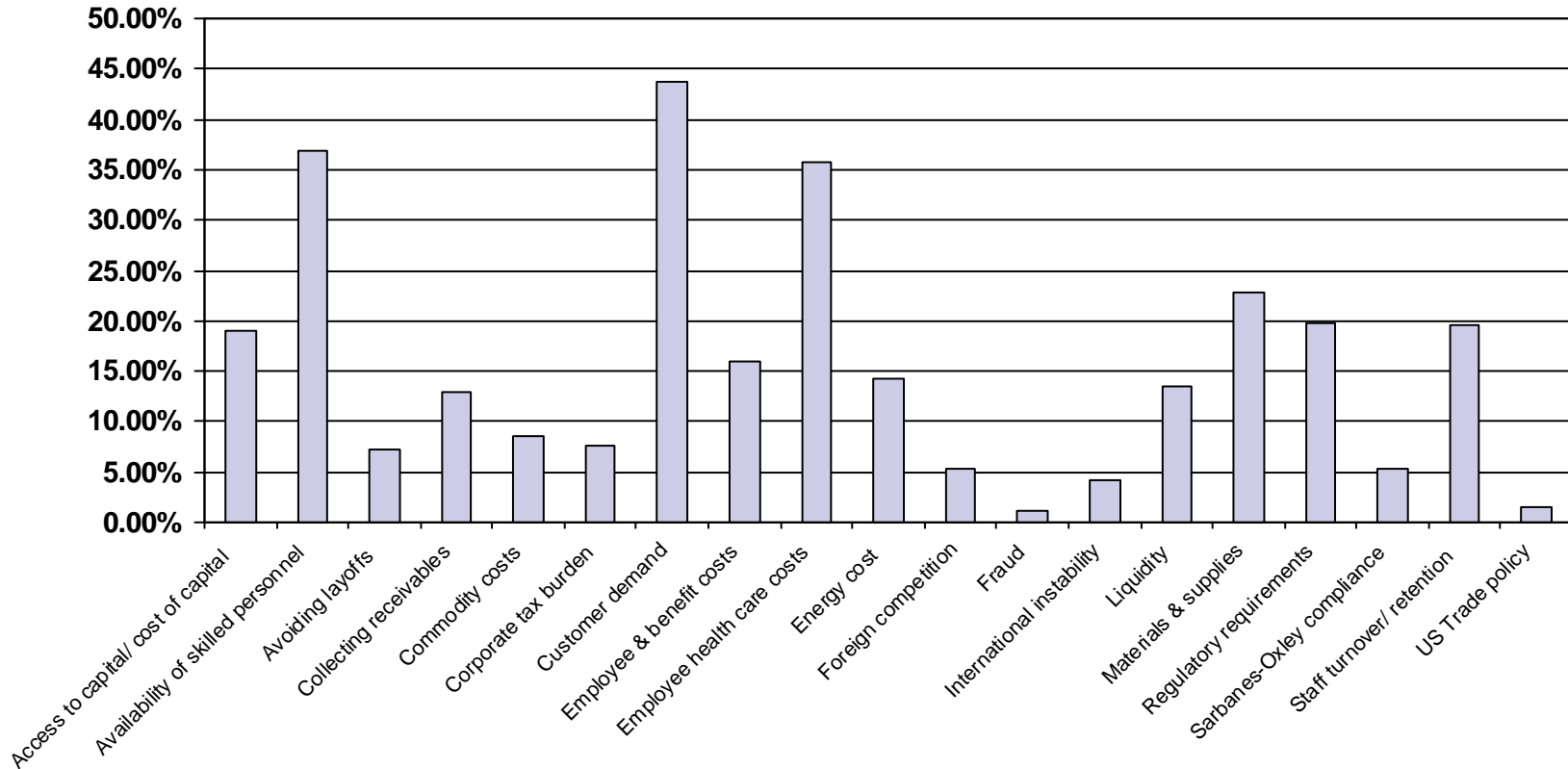
- The top three challenges facing organizations are:
 - Customer demand
 - Availability of skilled personnel
 - Employee healthcare costs
- There was some variation by industry
 - Healthcare providers and Technology respondents were more likely to be challenged by the availability of skilled personnel
 - Regulatory requirements were more challenging to the Finance & Insurance and Healthcare industries
 - Access to capital was a major challenge to the Real Estate Industry but not any other industry

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

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%

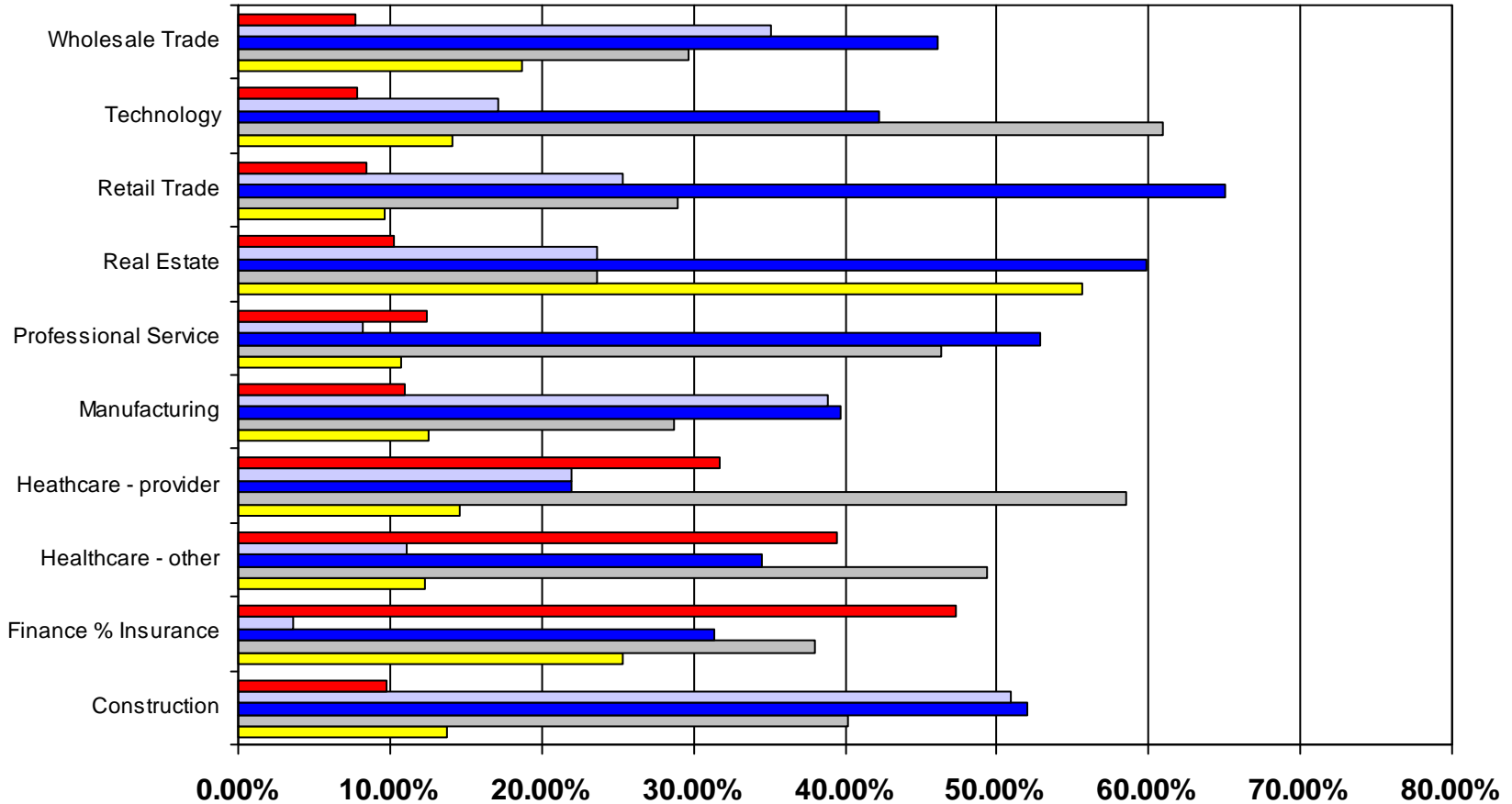
Jan 08



Top Organizational Challenges by Industry

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

■ Access to capital
 ■ Availability of skilled Personnel
 ■ Customer Demand
 ■ Materials
 ■ Regulatory Reqts



1Q 2008 Unique Questions

Each quarter several questions focusing on topical issues are asked

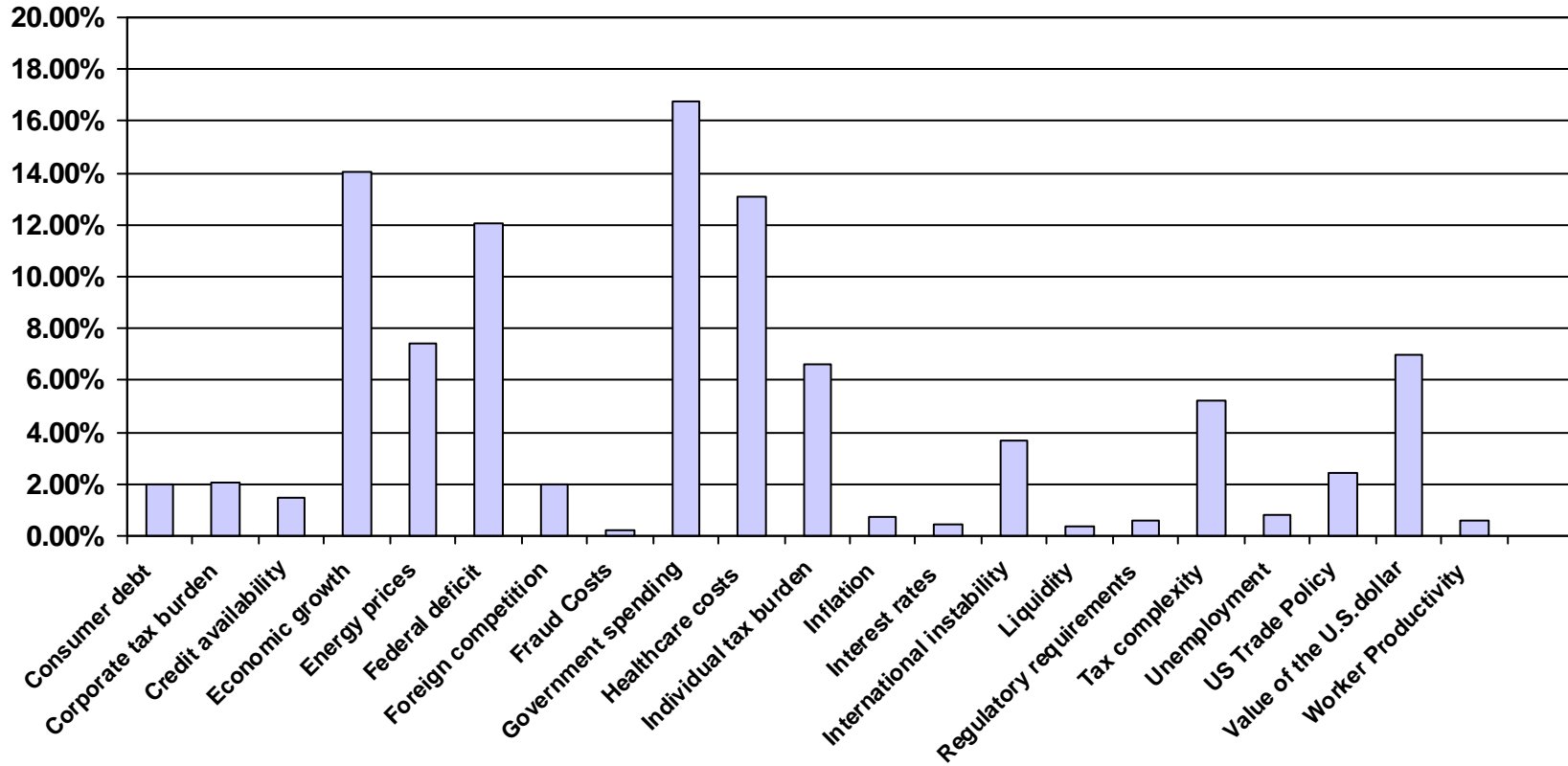
1Q 2008 questions focused on election issues, the Fed rate cuts, economic stimulus and the mortgage industry

- **Election Issues** – respondents would most like to see the candidates debate government spending, followed by economic growth and healthcare costs
- **Fed rate reductions** – 45% feel the benefits of further cuts will be offset by adverse consequences, 19% feel they won't have enough impact and 36% feel the Fed needs to be more aggressive
- **Fiscal Stimulus** – 57% feel a package is necessary with 41% favoring individual tax credits or rebates, 31% favoring business tax cuts and 22% favoring tax credits to stimulate investment
- **Mortgage Crisis** – respondents oppose providing mortgage relief to borrowers by a 2 to 1 margin. They support tighter regulation by a 3 to 2 margin.

Economic Issues to Debate in the 2008 Election Campaign

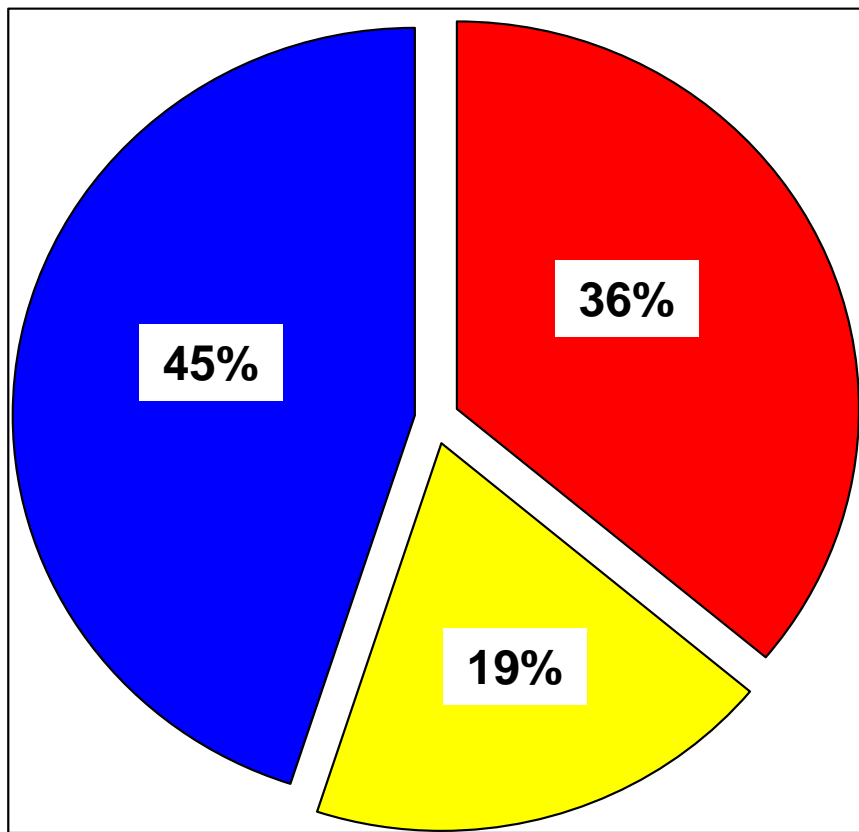
Which of the following economic issues would you most like to see debated in the 2008 election campaign?

Jan 08



Federal Reserve Rate Reductions

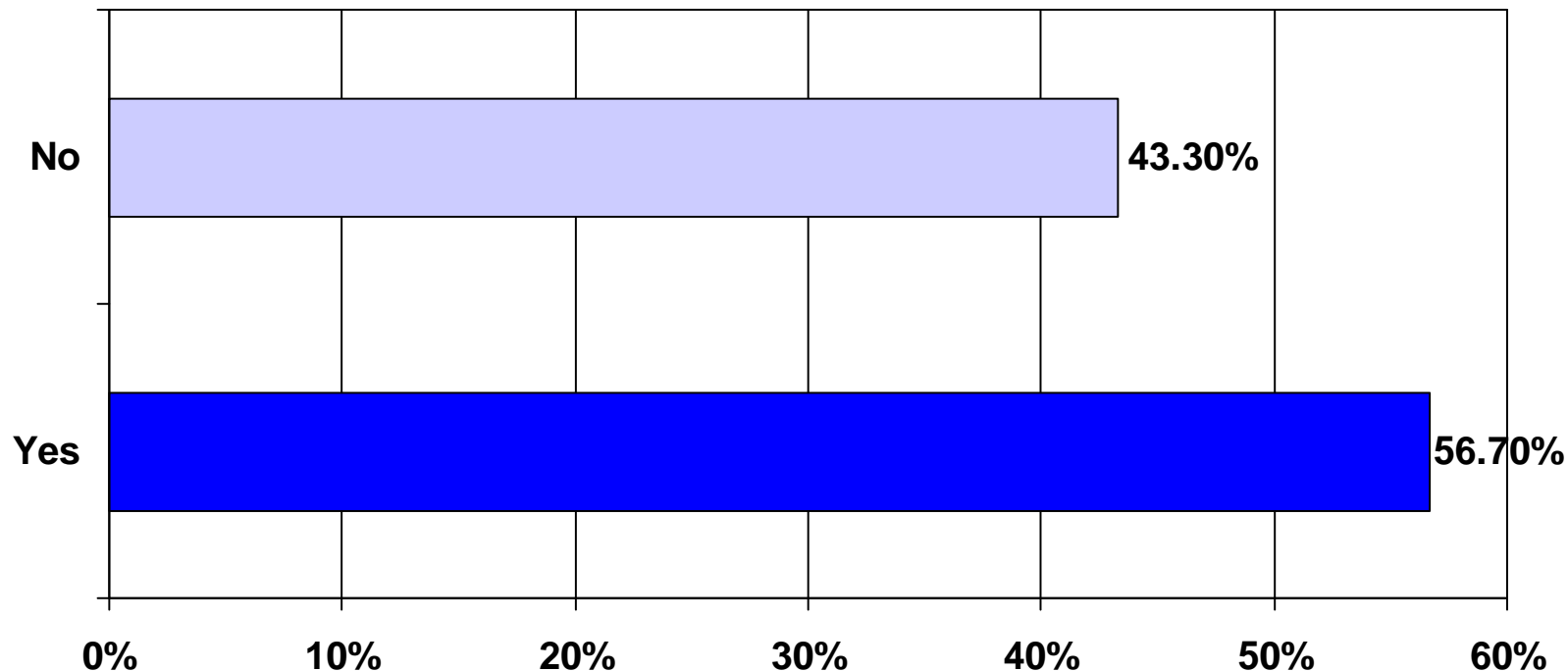
Which of the following best describes your position with respect to Federal Reserve rate reductions?



- The Fed needs to continue to be more aggressive to prevent further economic slowdown
- Lenders and borrowers will not react to additional rate cuts sufficiently to stimulate the economy
- The benefit from more aggressive rate reductions would be offset by the adverse impact on the value of the US dollar, higher oil prices and other inflationary pressures.

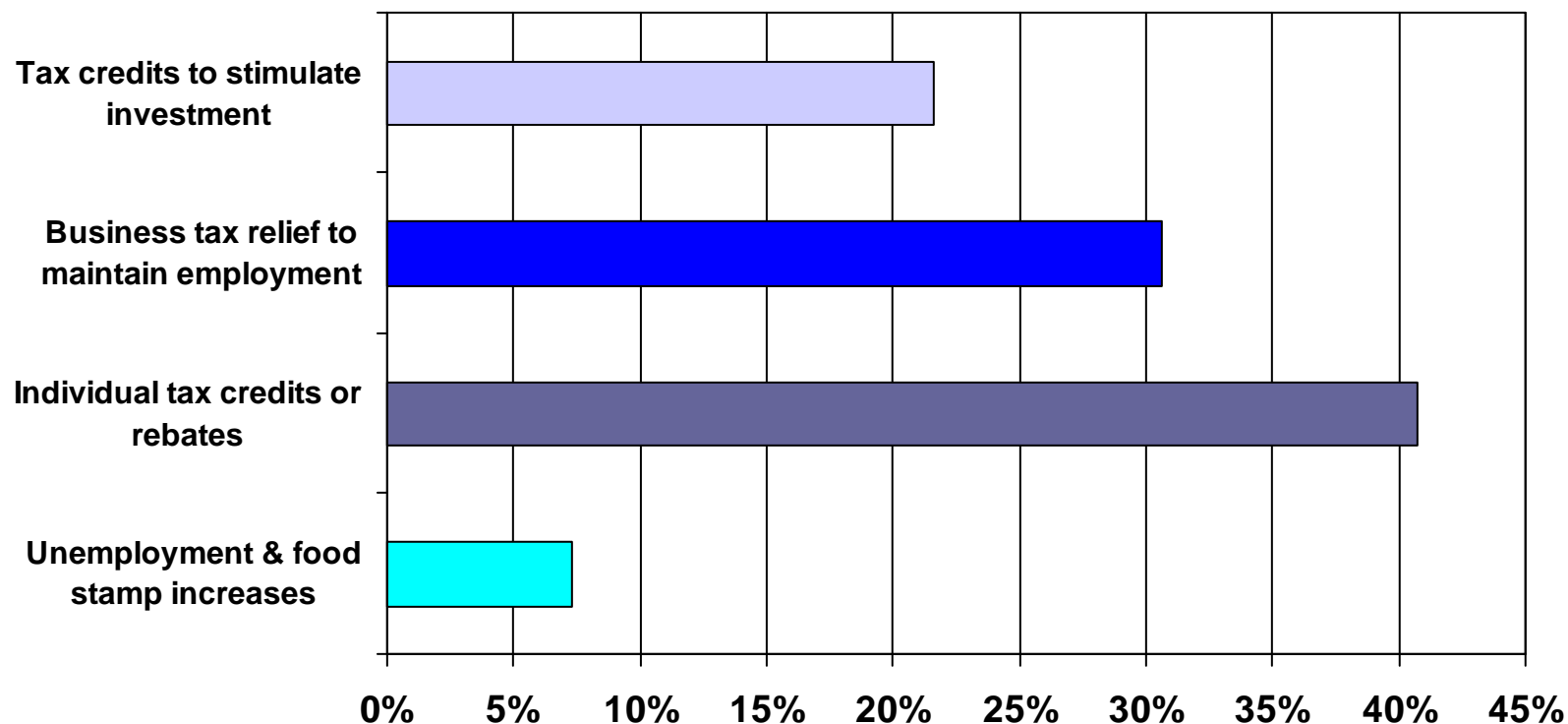
Fiscal Stimulus Package

Do you think a fiscal stimulus package is necessary to forestall a recession?



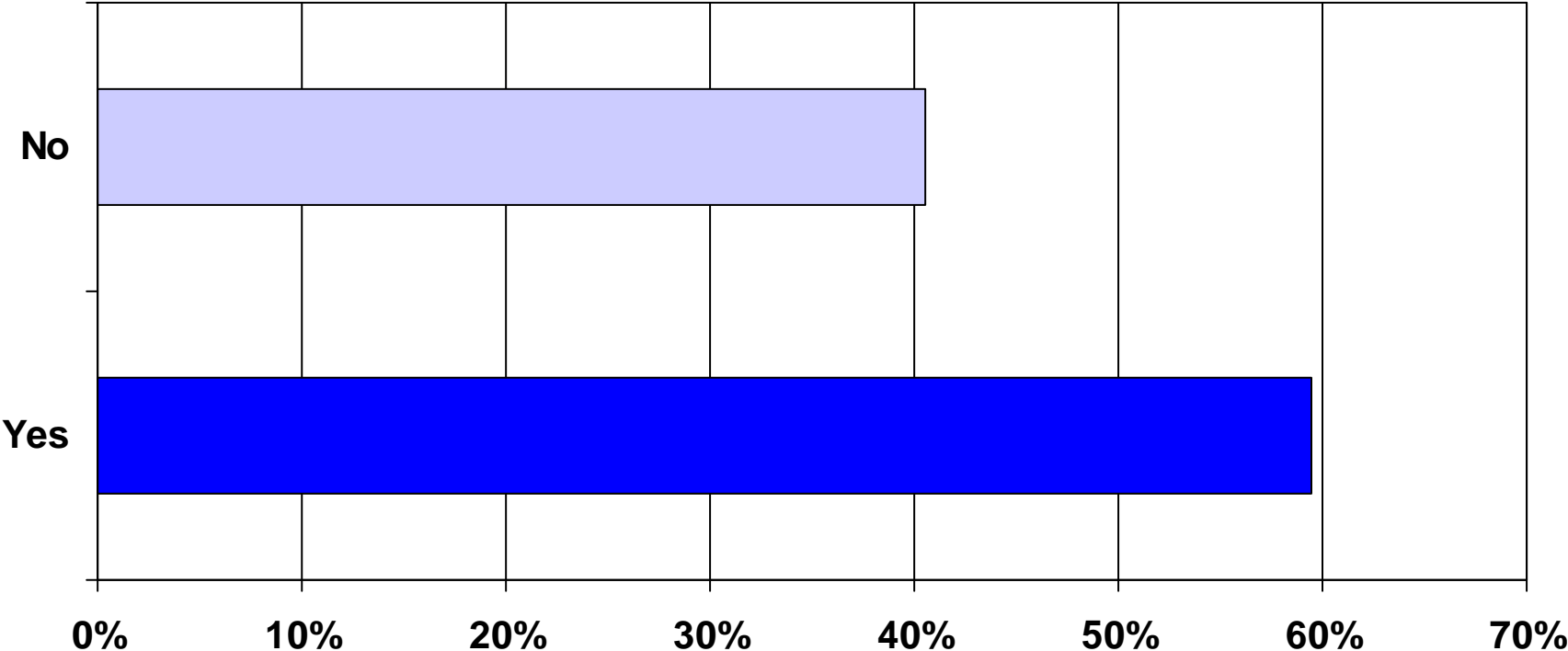
Type of Fiscal Stimulus Package

If a stimulus package were passed by Congress, which types of incentives do you think would be most effective?



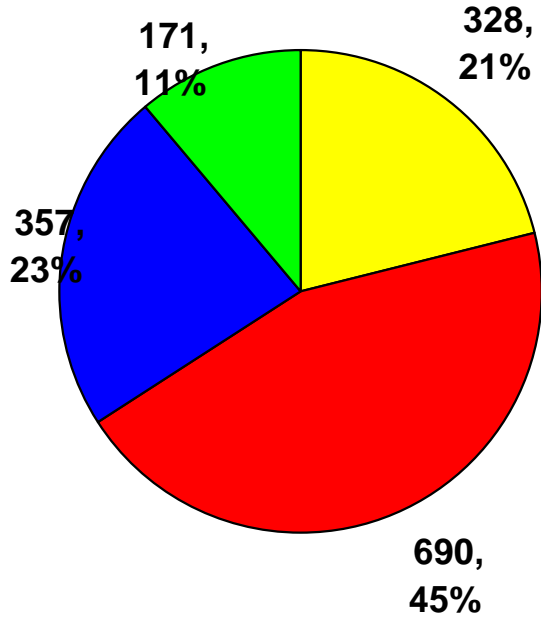
Additional regulation of the mortgage industry

The Fed has proposed new rules targeted at practices contributing to the sub-prime mortgage crisis. Some say the Fed rules are inadequate and legislation to tighten regulation of the mortgage industry is necessary. Do you think additional regulation is necessary?

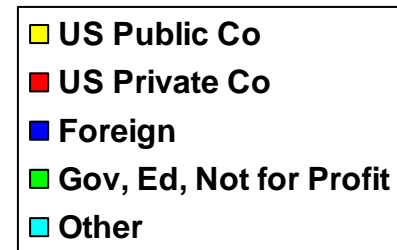
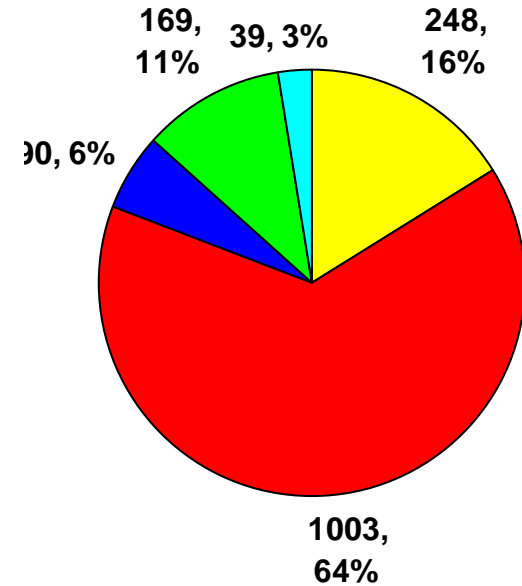


Survey Respondents

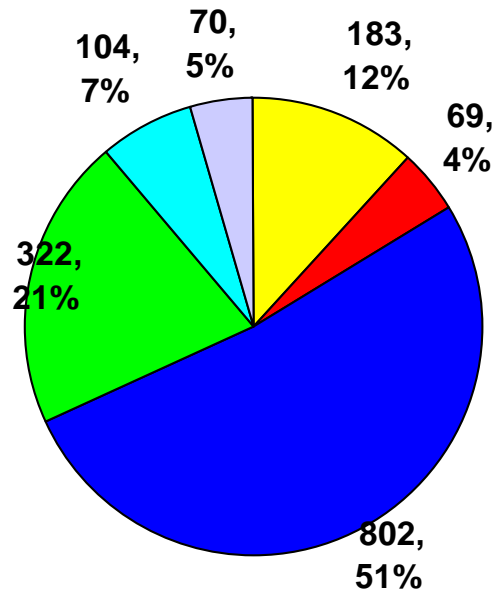
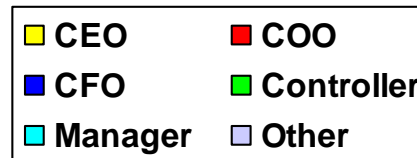
Size of Organization



Type of Organization



Position





IFRS

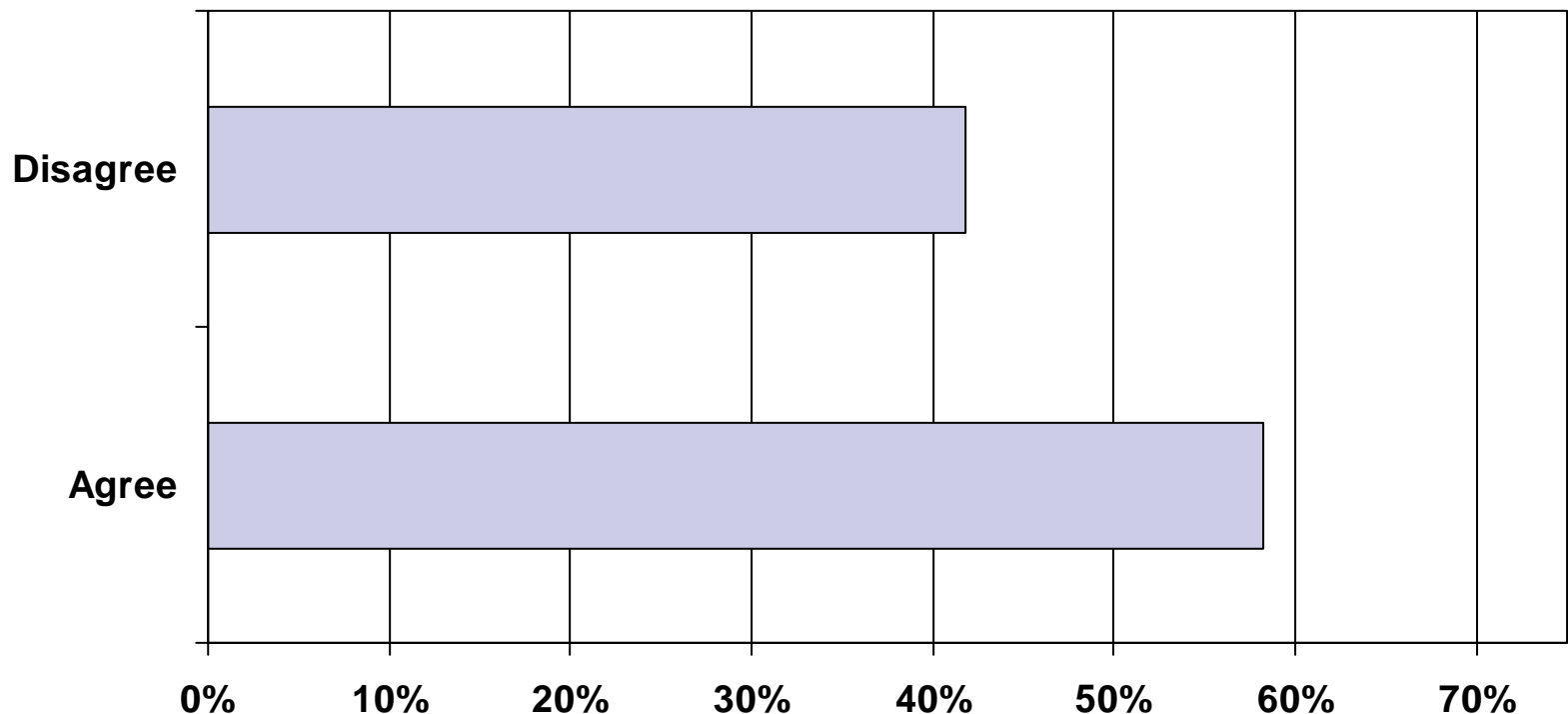
This survey contained a “survey within a survey” developed in partnership with the UNC Kenan-Flagler Business School concerning IFRS adoption and its potential impacts

IFRS Adoption

- Respondents support the recent SEC decision to allow foreign issues to file using IFRS
- 42% of respondents feel that US companies should wait for convergence before filing under IFRS is allowed, while 33% feel US companies should use GAAP for the foreseeable future
- If US companies were given the option to file under IFRS, almost 58% of respondents would continue with US GAAP
- Most organizations have not begun to prepare for IFRS adoption
- Most respondents are unsure what impact IFRS will have on transparency, legal liability, earnings management and fraud reporting.

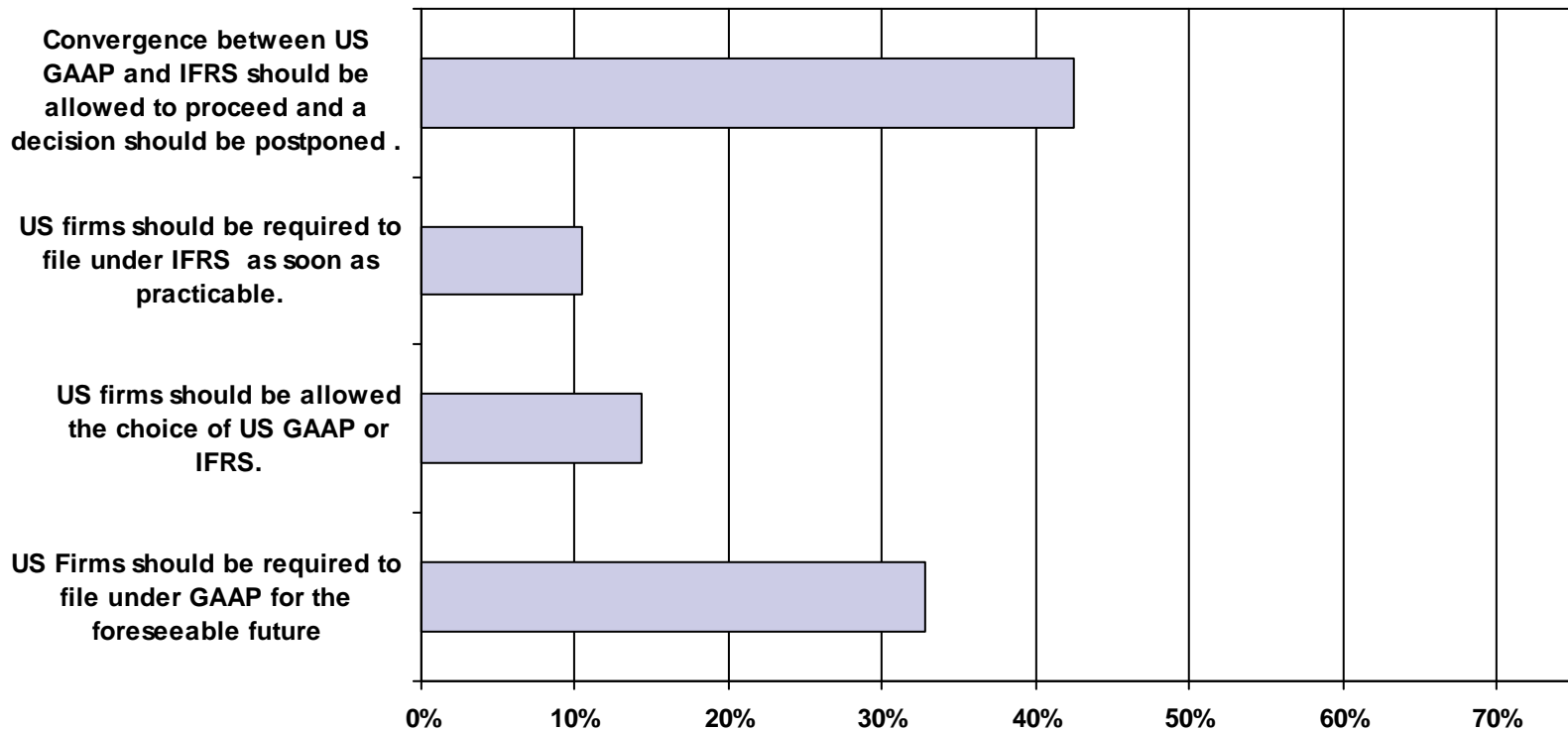
Foreign companies using IFRS for SEC filings

The SEC recently decided to allow foreign issuers to file using IFRS and has requested comments on whether to allow US companies to do the same. Do you agree or disagree with the SEC's decision to allow foreign companies to file in US under IFRS?



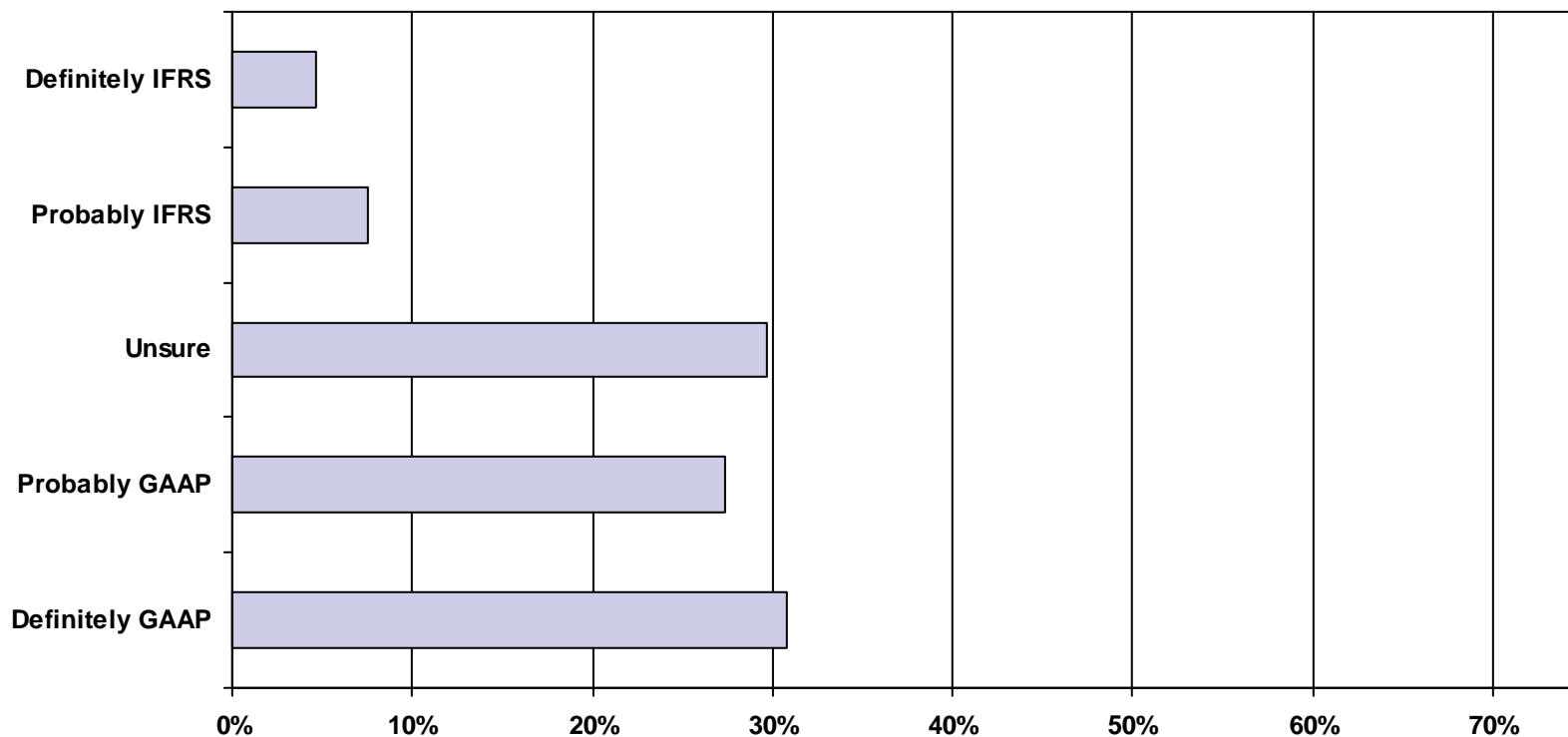
US Companies filing under IFRS

The SEC has proposed that US companies might be allowed to file under IFRS. What is your perspective on the idea of allowing US companies to file under IFRS rather than US GAAP?



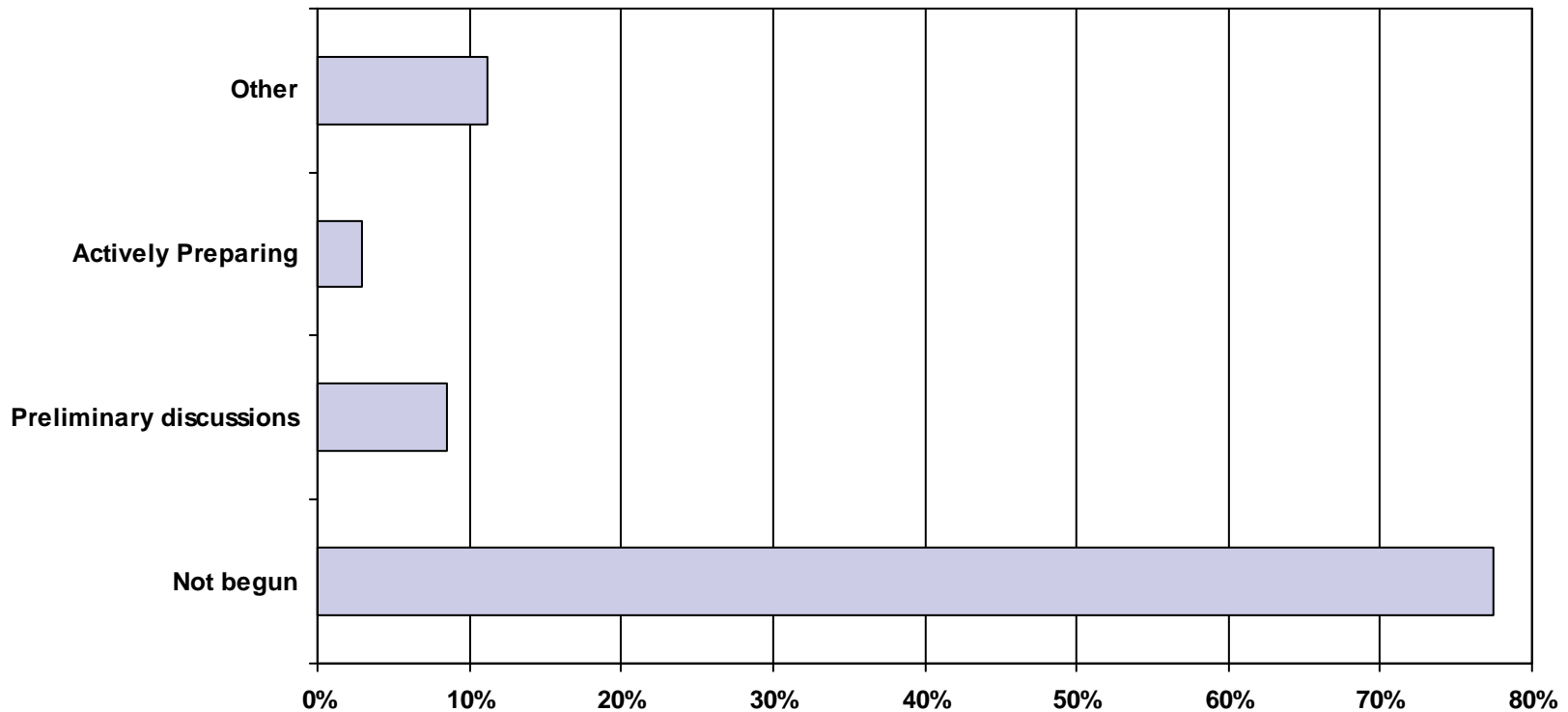
Would your company file under GAAP or IFRS?

If the SEC's proposal to allow US companies the option to file under IFRS becomes a reality, given a choice would you support your company's filing under US GAAP or IFRS?



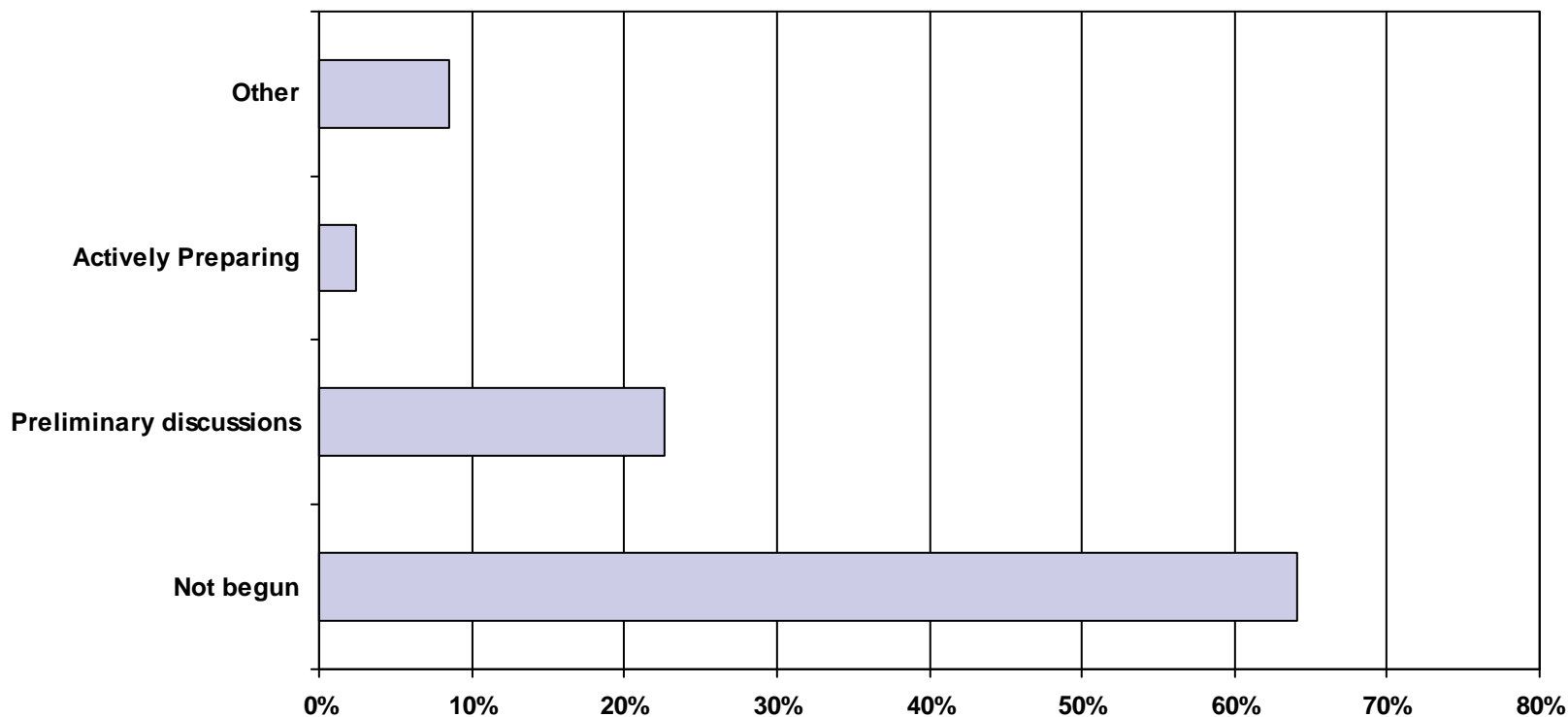
Preparing for IFRS adoption

To what extent is your firm preparing for potential IFRS adoption?



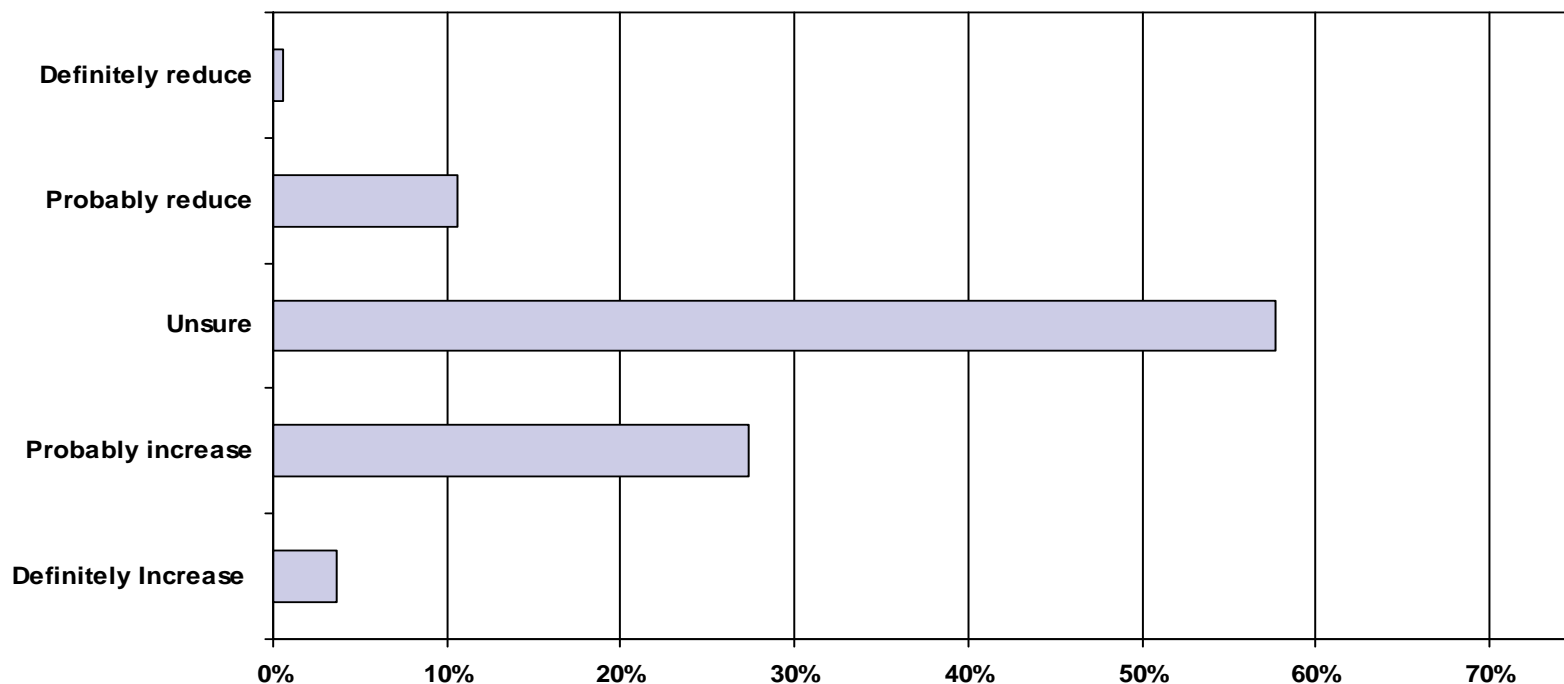
Preparing for IFRS adoption- Public companies only

To what extent is your
firm preparing for
potential IFRS
adoption?



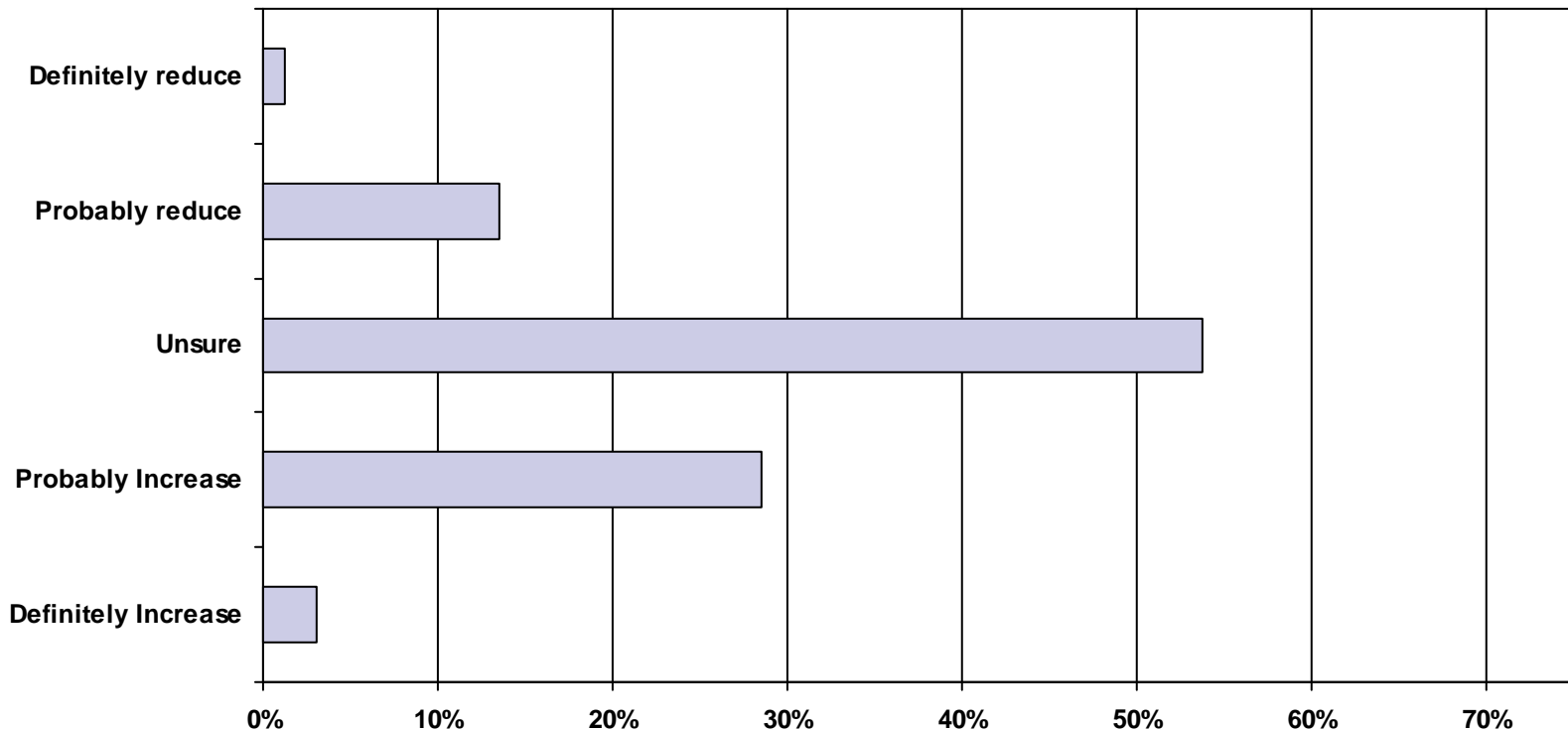
Principles-based accounting - effect on legal liability

What effect do you think moving to more principles-based accounting standards will have on legal liability?



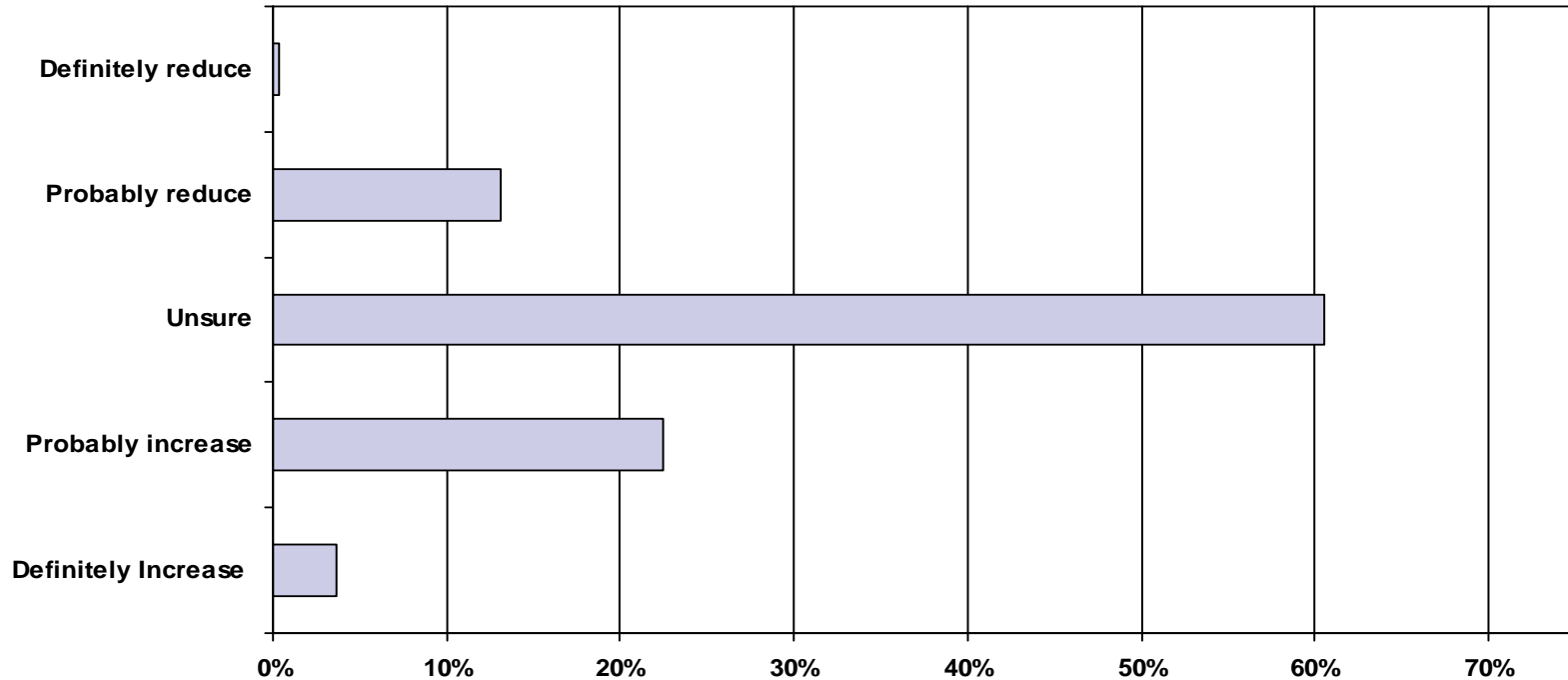
Principles-based accounting - effect on transparency

International Financial Reporting Standards are considered by many to be more “principles-based” than current US GAAP. What effect do you think moving to more principles-based accounting standards will have on financial statement transparency?



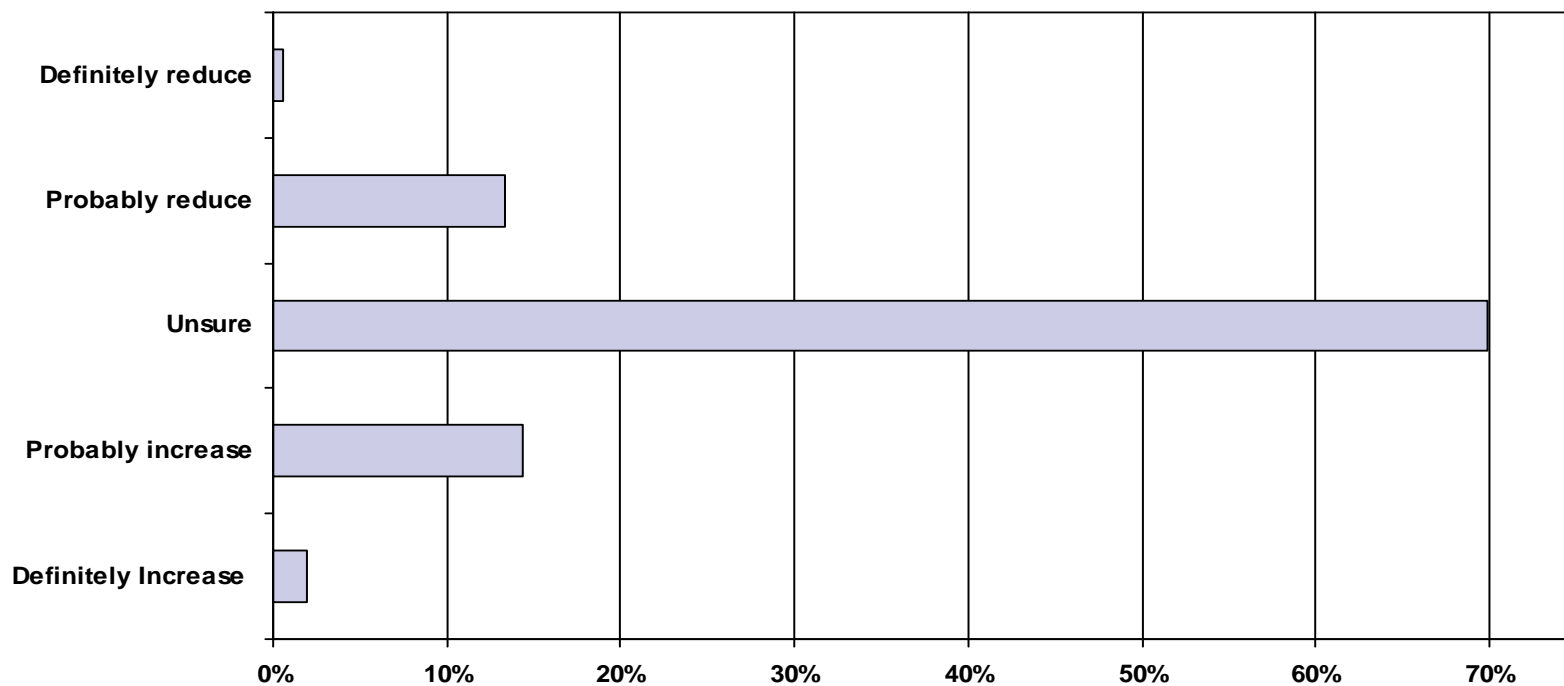
Principles-based accounting - earnings management


What effect do you think moving to more principles-based accounting standards will have on earnings management?



Principles-based accounting – reporting fraud

What effect do you think moving to more principles-based accounting standards will have on reporting fraud?





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