AICPA/UNC Kenan-Flagler Business and Industry Economic Outlook Survey

Detailed Survey Results

1Q 2009

Survey Background

- Conducted between Jan 28, 2009 and Feb 12, 2009
- Quarterly survey
- CPA decision makers (primarily CFOs, CEOs & Controllers)
- AICPA members in Business & Industry only
- 1274 total responses; 1183 qualified responses
- Partnership of AICPA Business, Industry & Government Team and UNC Kenan-Flagler Business School

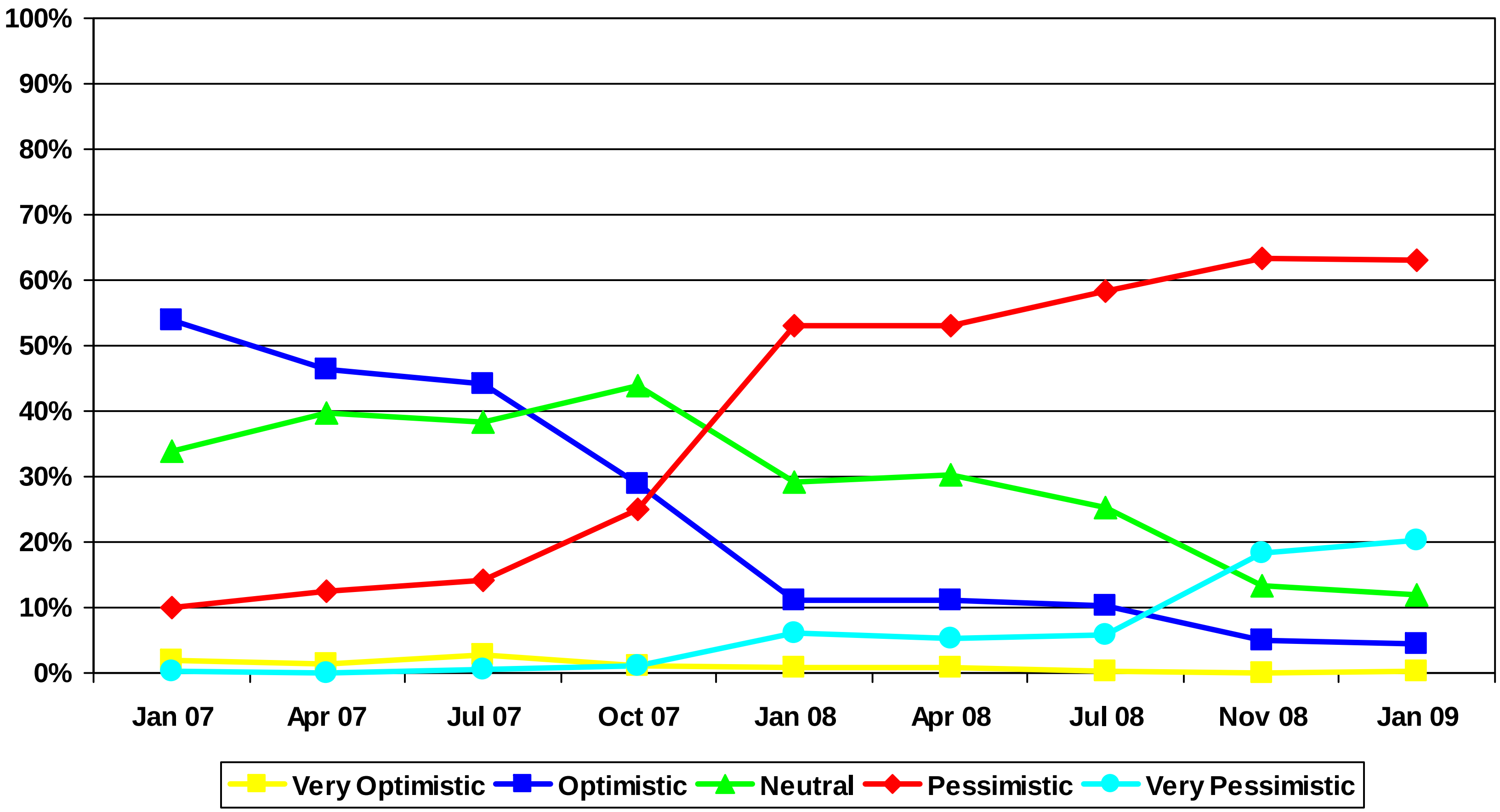
US Economy

- **Pessimism about the outlook for the US economy remains high**
  - 83% of respondents indicated they were pessimistic or very pessimistic; only 5% were optimistic or very optimistic
  - These numbers were stable with 4Q 2008
- **Pessimism varied slightly across industries**
  - **Technology respondents were slightly less pessimistic**
  - **Manufacturing respondents were slightly more pessimistic**
- **Expectations for when the economy will begin to improve have moved out**
  - **A majority now don't expect the economy to begin to improve until at least 2010**
- **Support for a stimulus package was strong***
  - **About equal numbers favored either a balance of tax cuts & spending or more tax cuts than spending**
  - **Only 15% favored spending over tax cuts**

**** Note: respondents were asked whether Congress should pass a stimulus; not if they favored the specific one passed by Congress.***

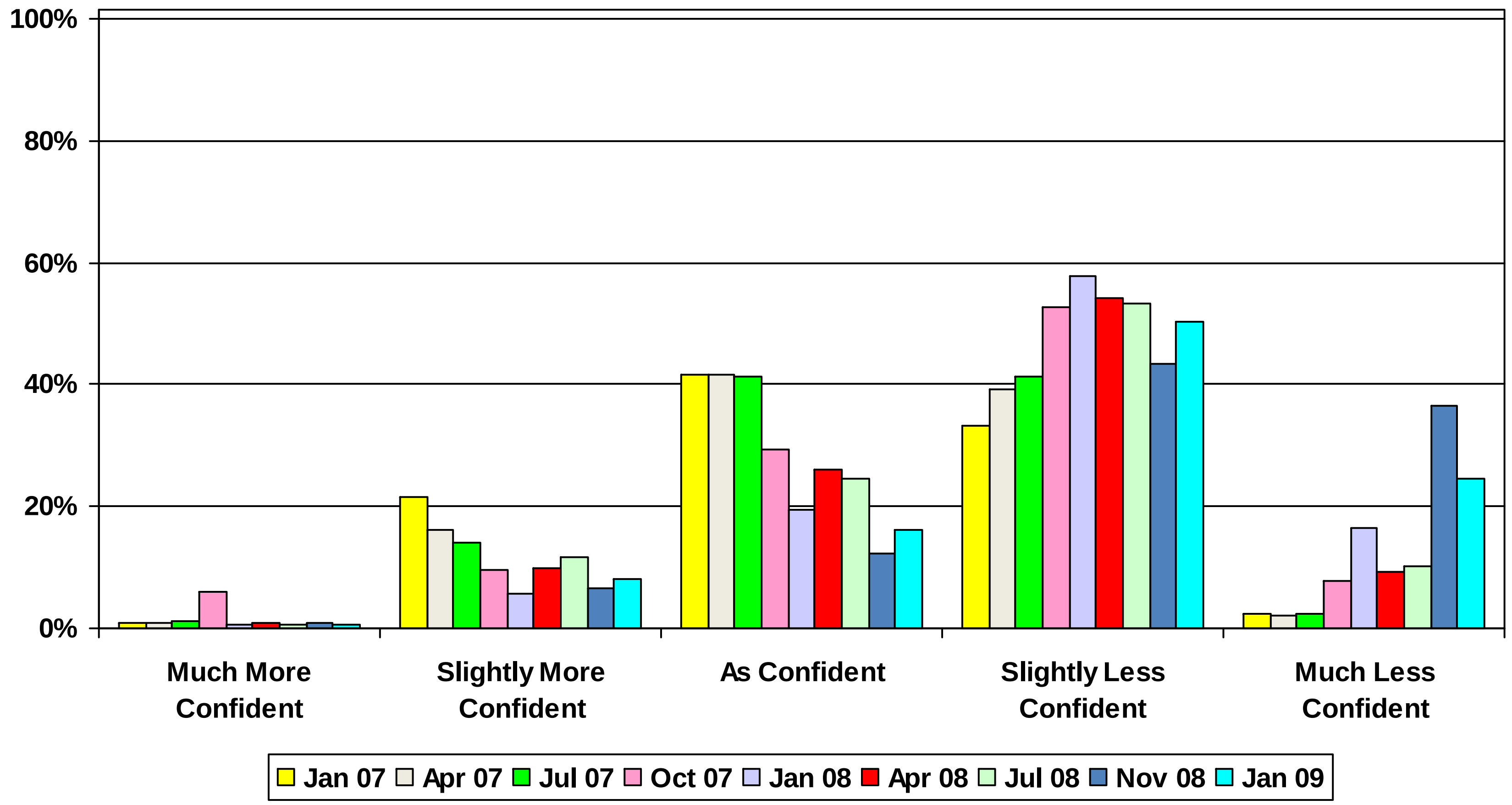
Economic Outlook for US

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.



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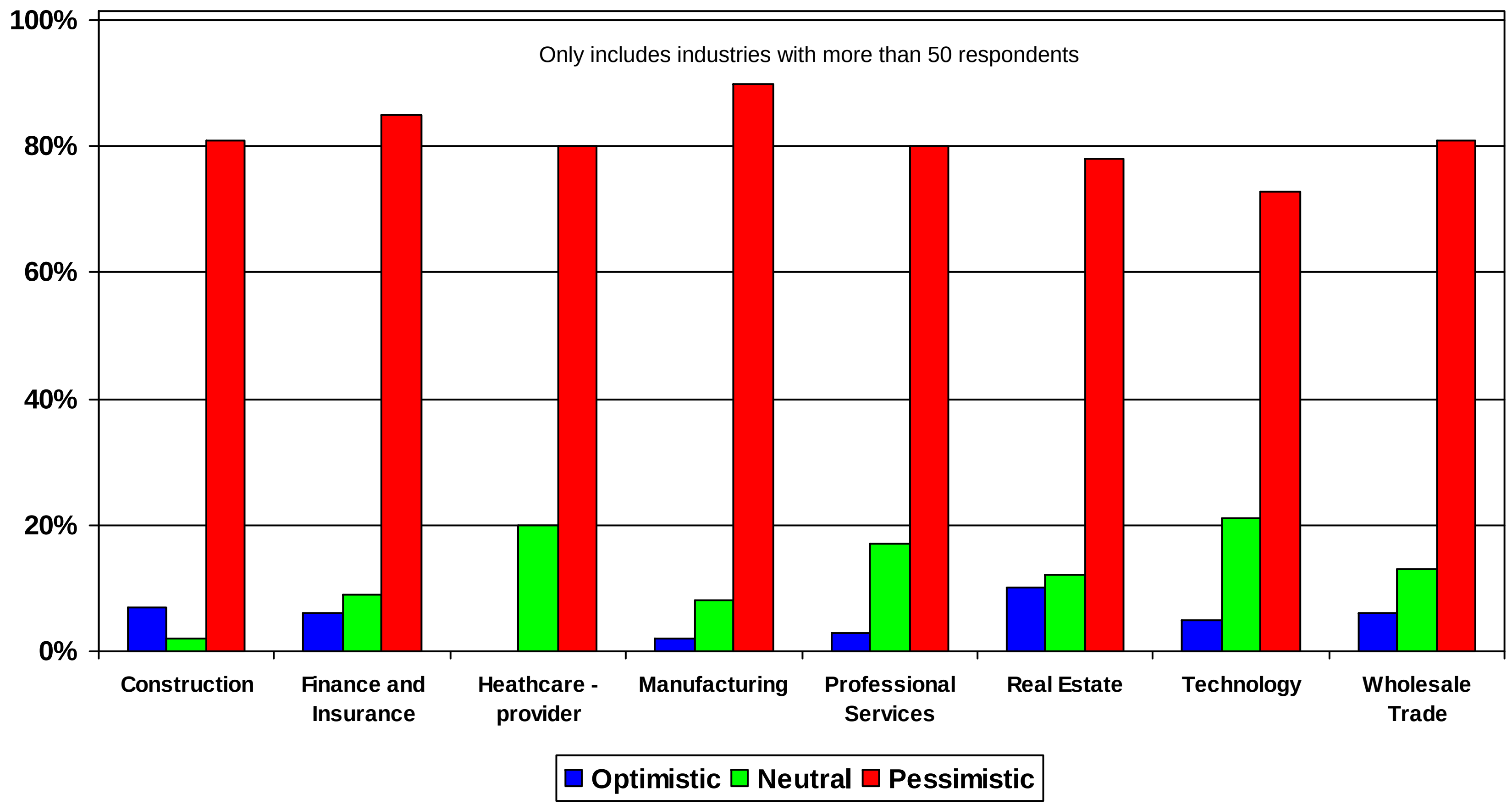
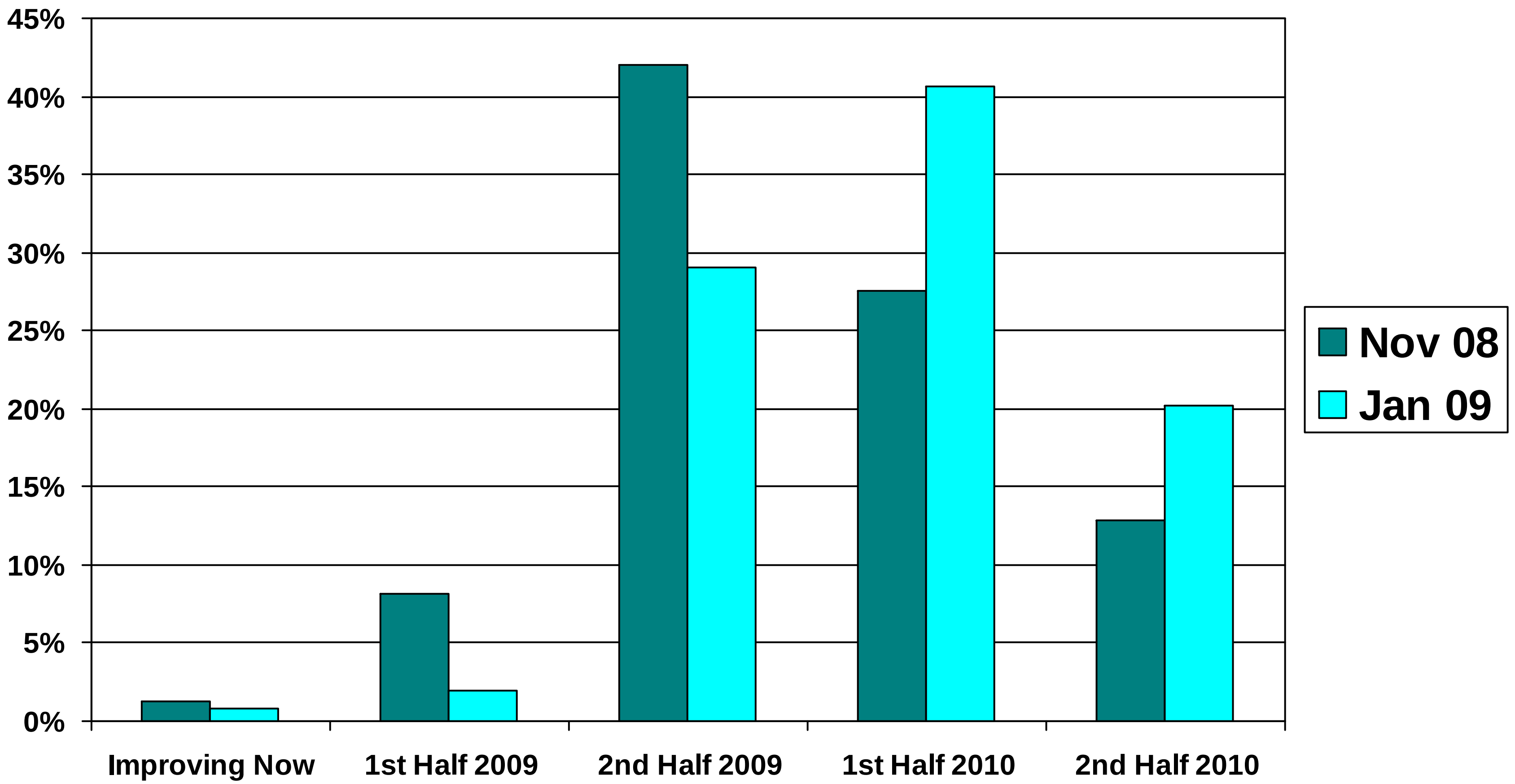
Economic Outlook for US by Industry

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



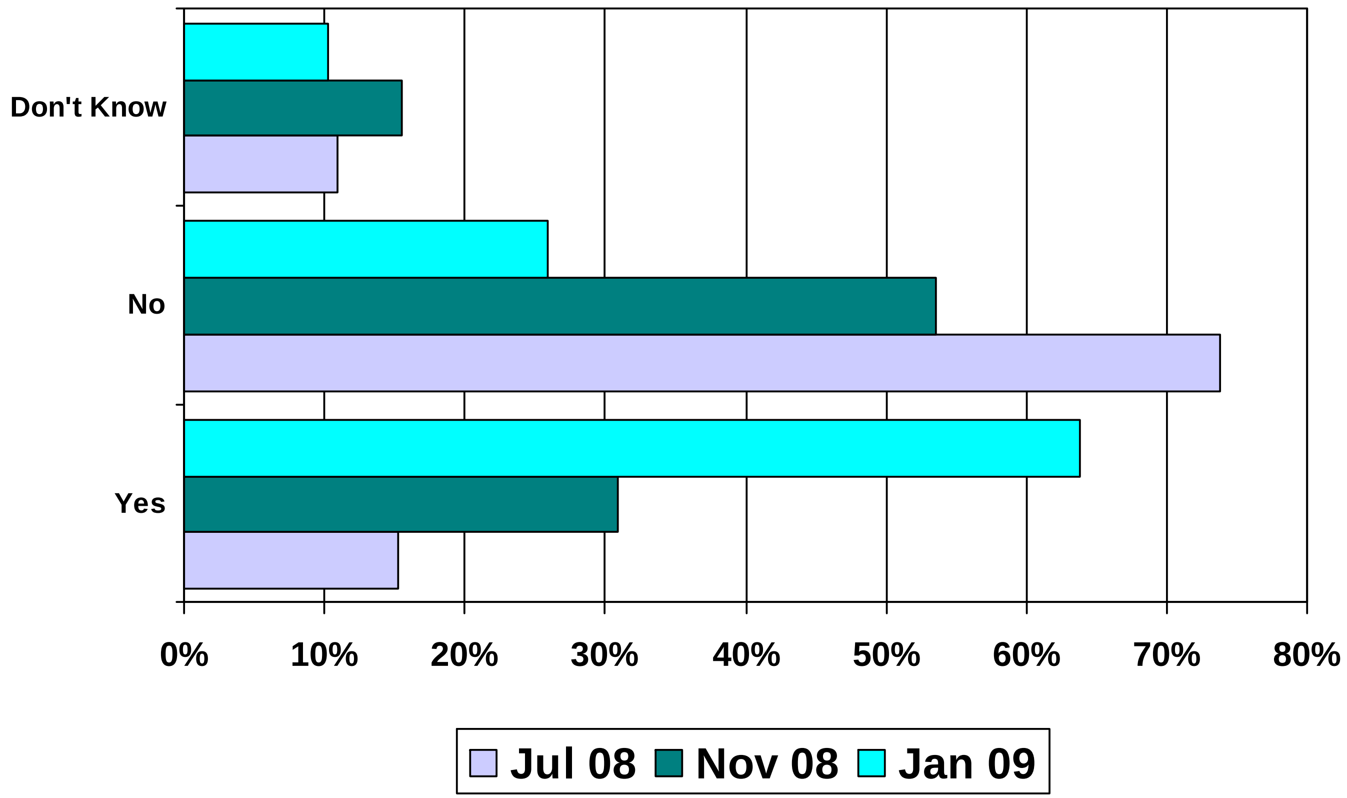
When will the US economy improve?

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



Economic Stimulus

Jul 08 & Nov 08:Do you think Congress should pass a second economic stimulus package to boost the economy?
Jan 09: Do you think Congress should pass a economic stimulus package to boost the economy?

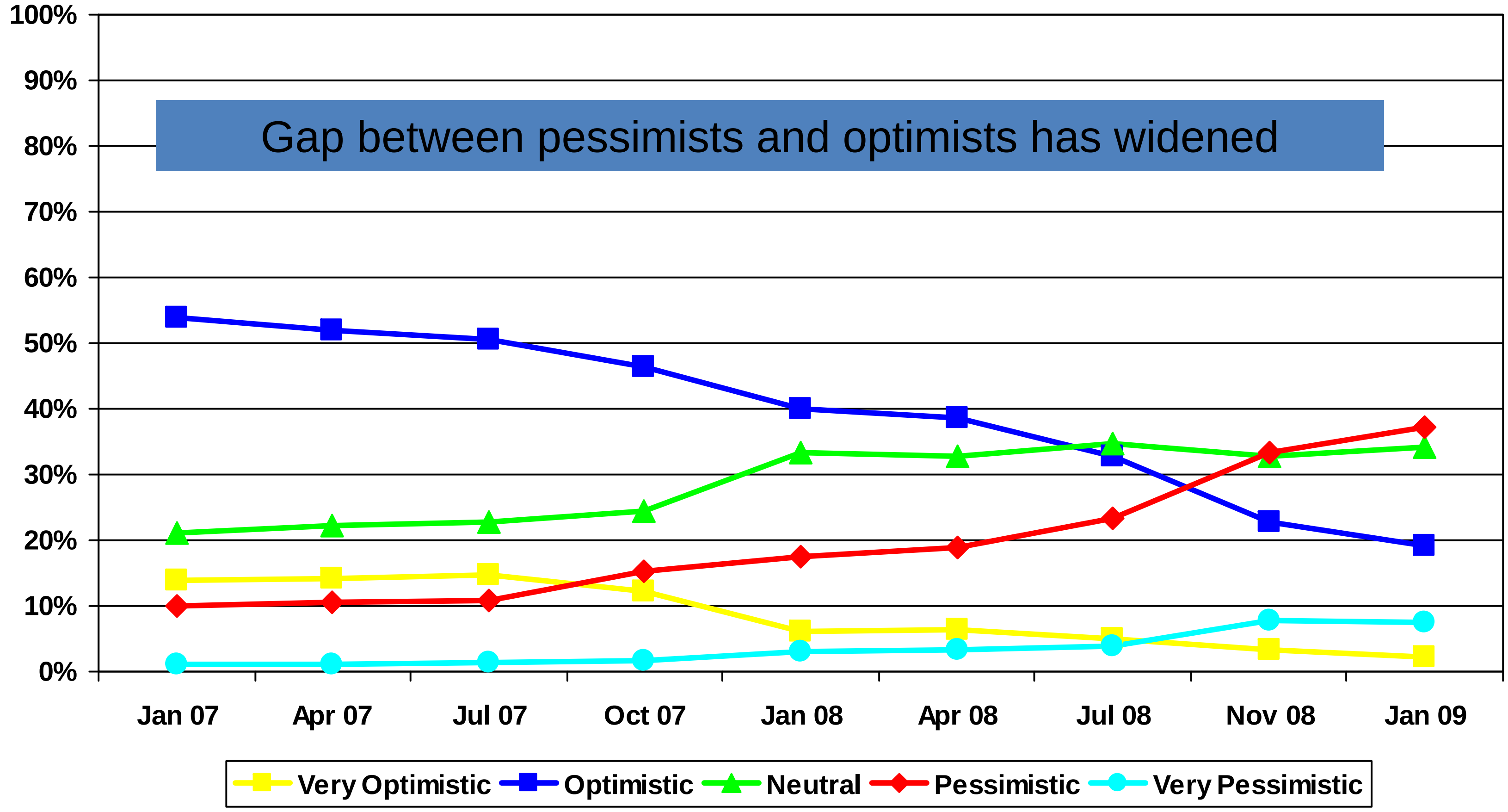


Your Own Organization

- **Pessimism about respondents' own organizations increased slightly with a corresponding decrease in optimism**
  - Forty-five percent were pessimistic vs 21% optimistic
  - Still respondents more optimistic about their own organizations than about the US economy as a whole
- **Pessimists outnumbered optimists in all industries except Professional Services where pessimists and optimists were equal**
  - This represented an increase in pessimism for professional services
- **Pessimism supported by the fact that the number of organizations expecting their businesses to contract increased also**

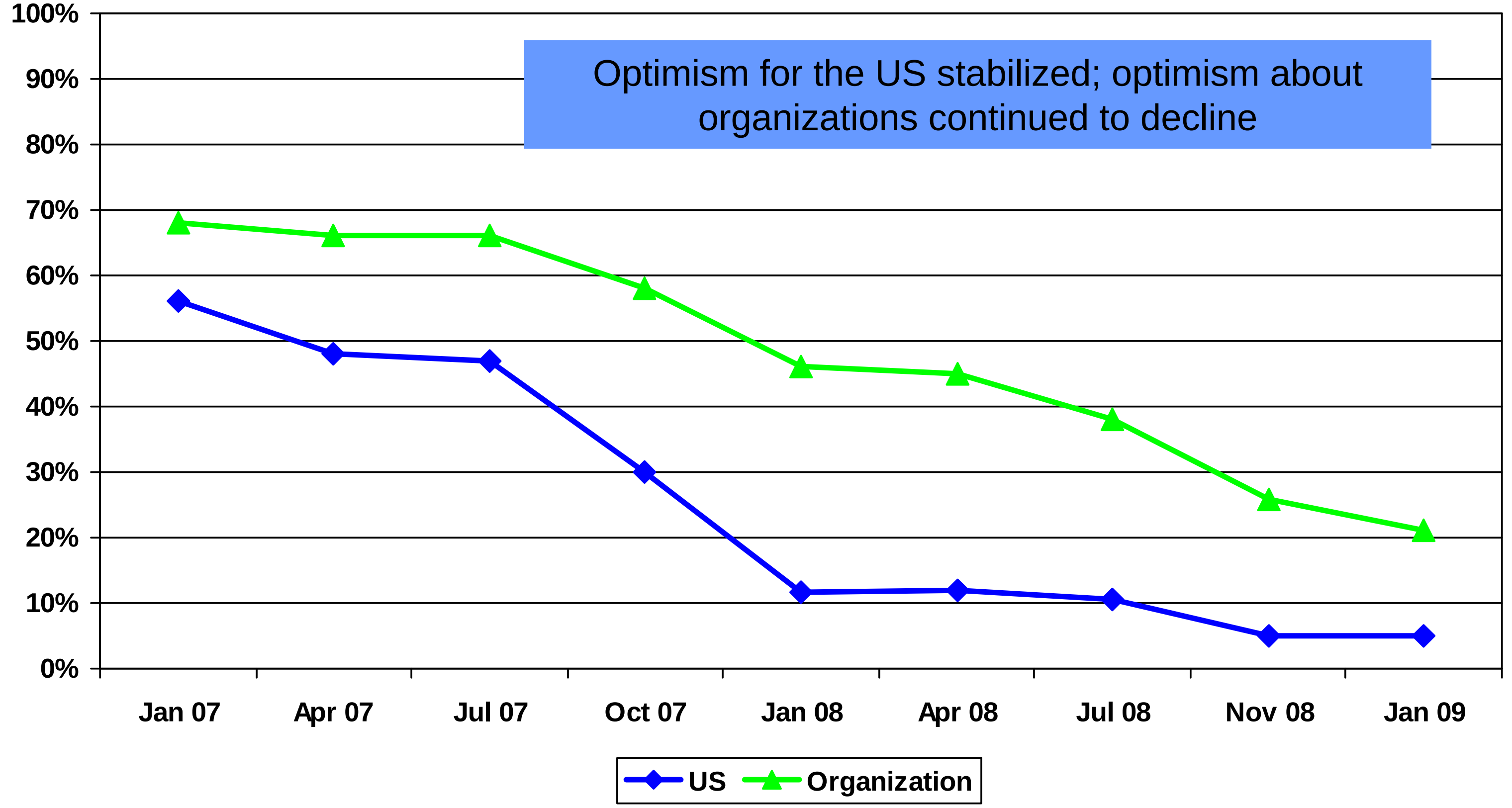
Economic Outlook for Your Own Organization

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



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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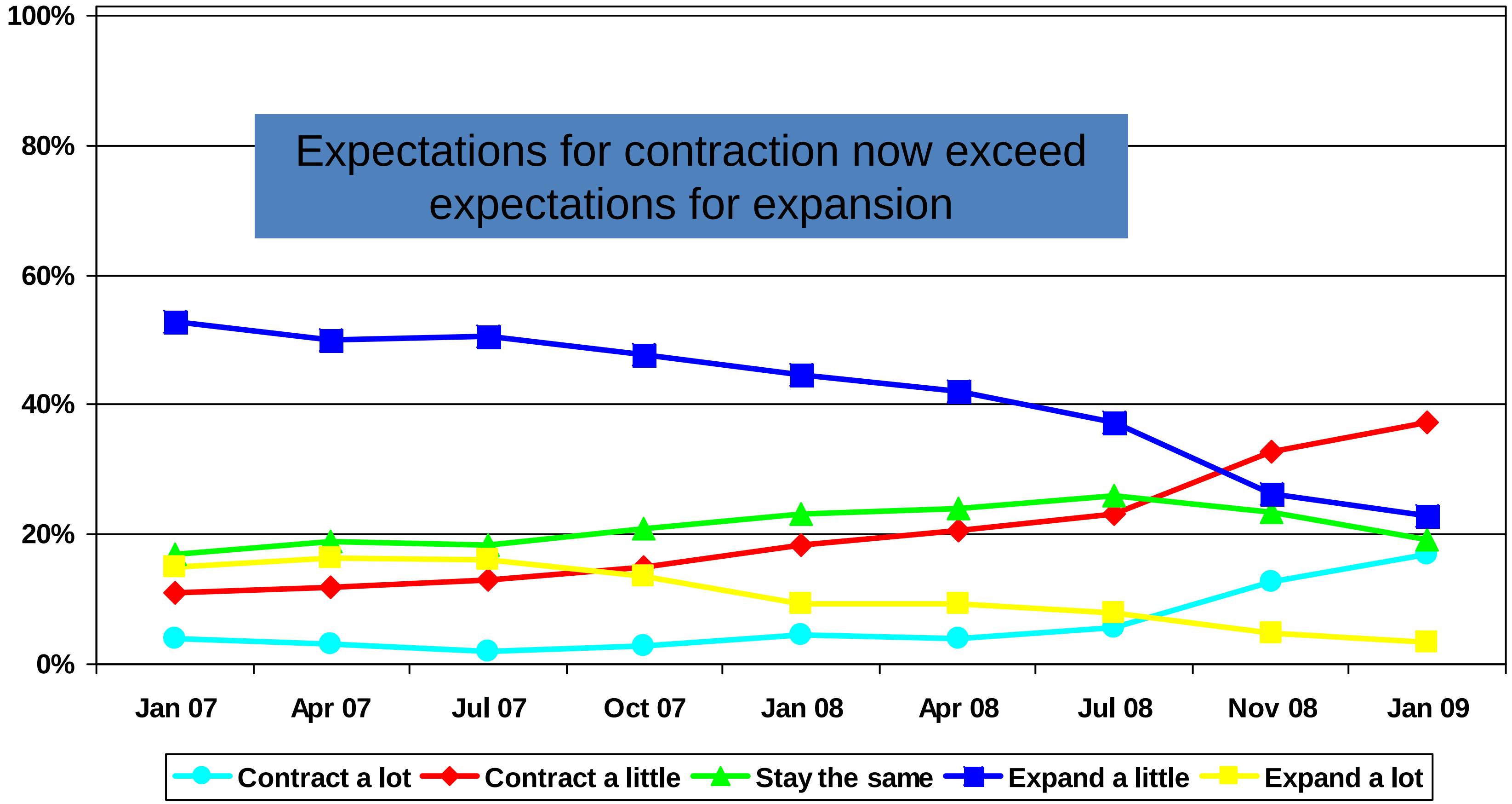
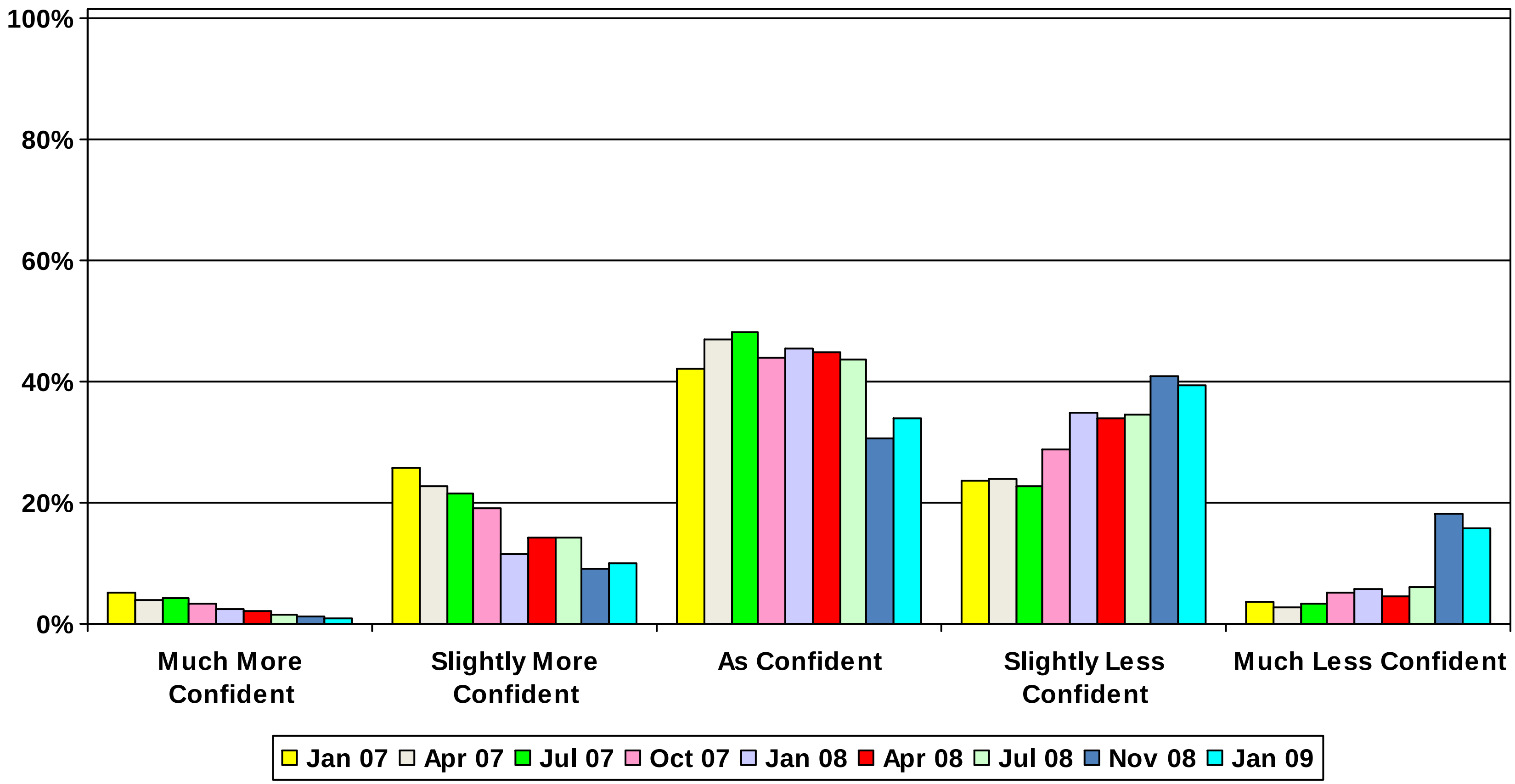
Expansion/Contraction of Your Own Organization

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



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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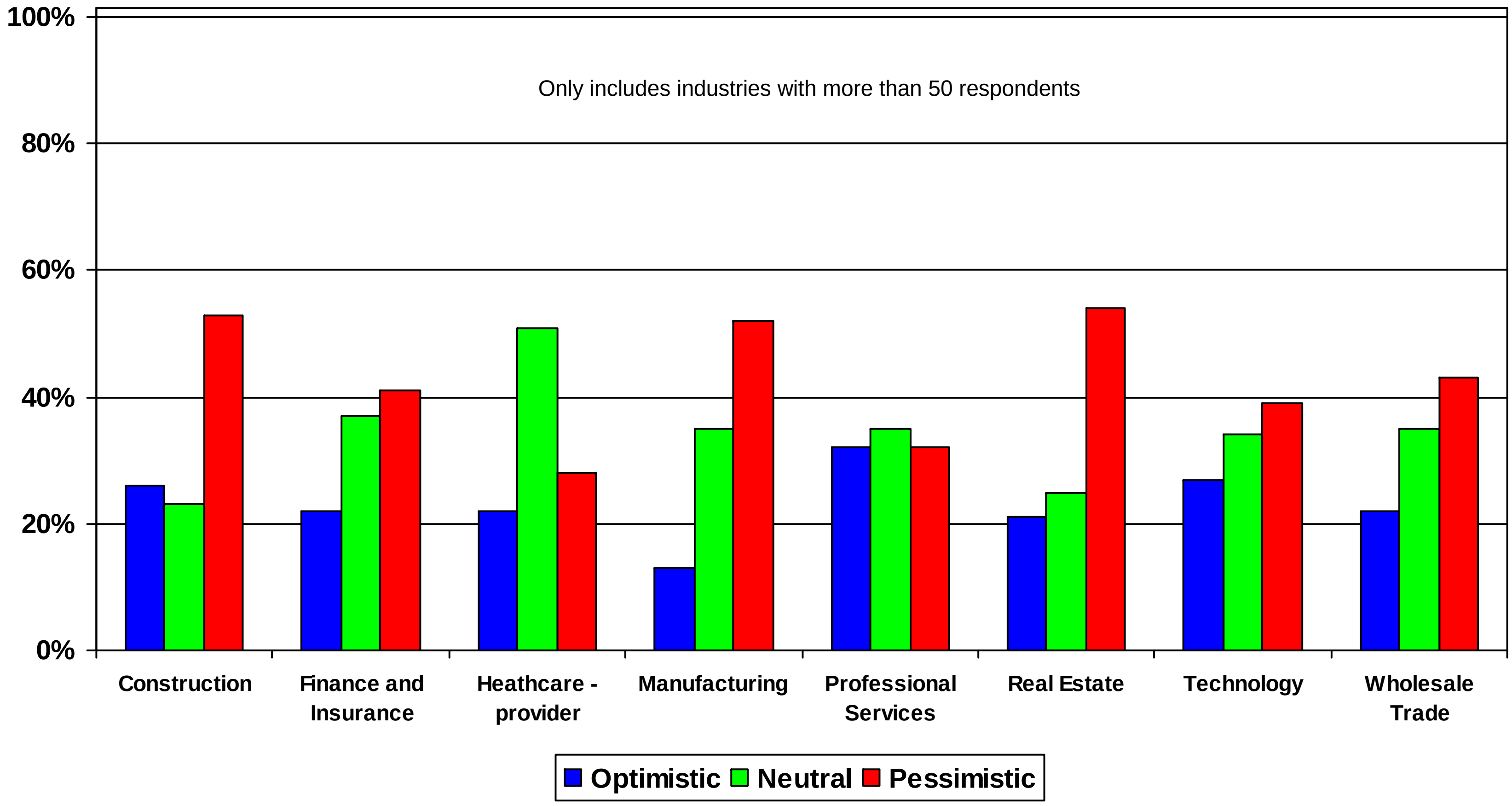
Economic Outlook for Your Own Organization by Industry

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

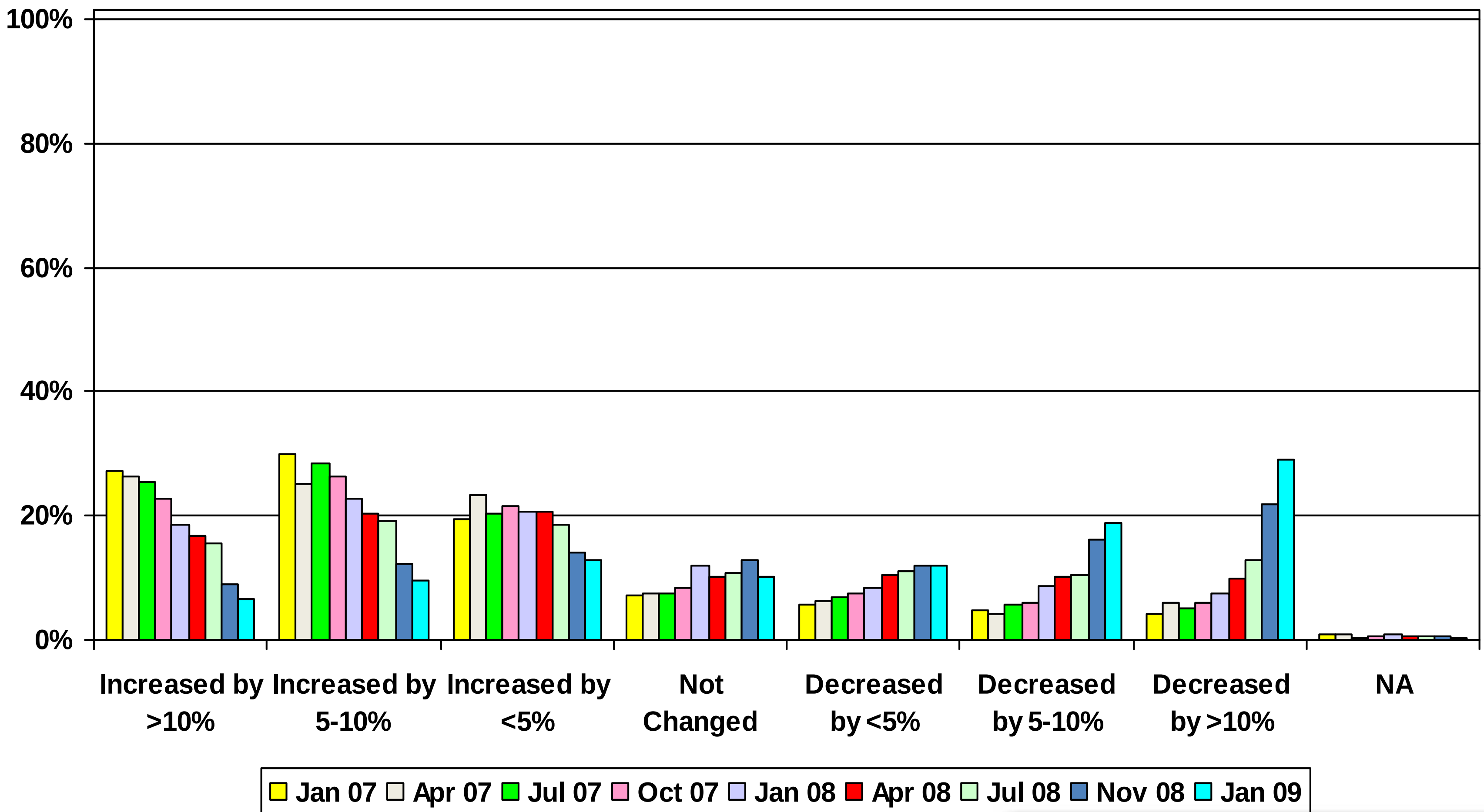


Key Performance Indicators
Revenue, Profit, Employees

- **Expectations for revenue and profit continue to decline**
  - The percentage of respondents expecting revenue decreases (60%) is now twice the percentage expecting revenue increases (29%).
  - Expectations for profit decreases are similar with 60% expecting decreases and only 26% expecting increases
- **Employment prospects continue to drop**
  - Less than half (47%) of respondents expect to maintain or increase the # of employees; last quarter 57% expected to do so.
    - 32% expect employment decreases of more than 5%
  - Technology and Healthcare providers had the best prospects with just under one third expecting to increase the number of employees; but even for those industries the number of respondents expecting decreases exceeded the number exceeding increases.

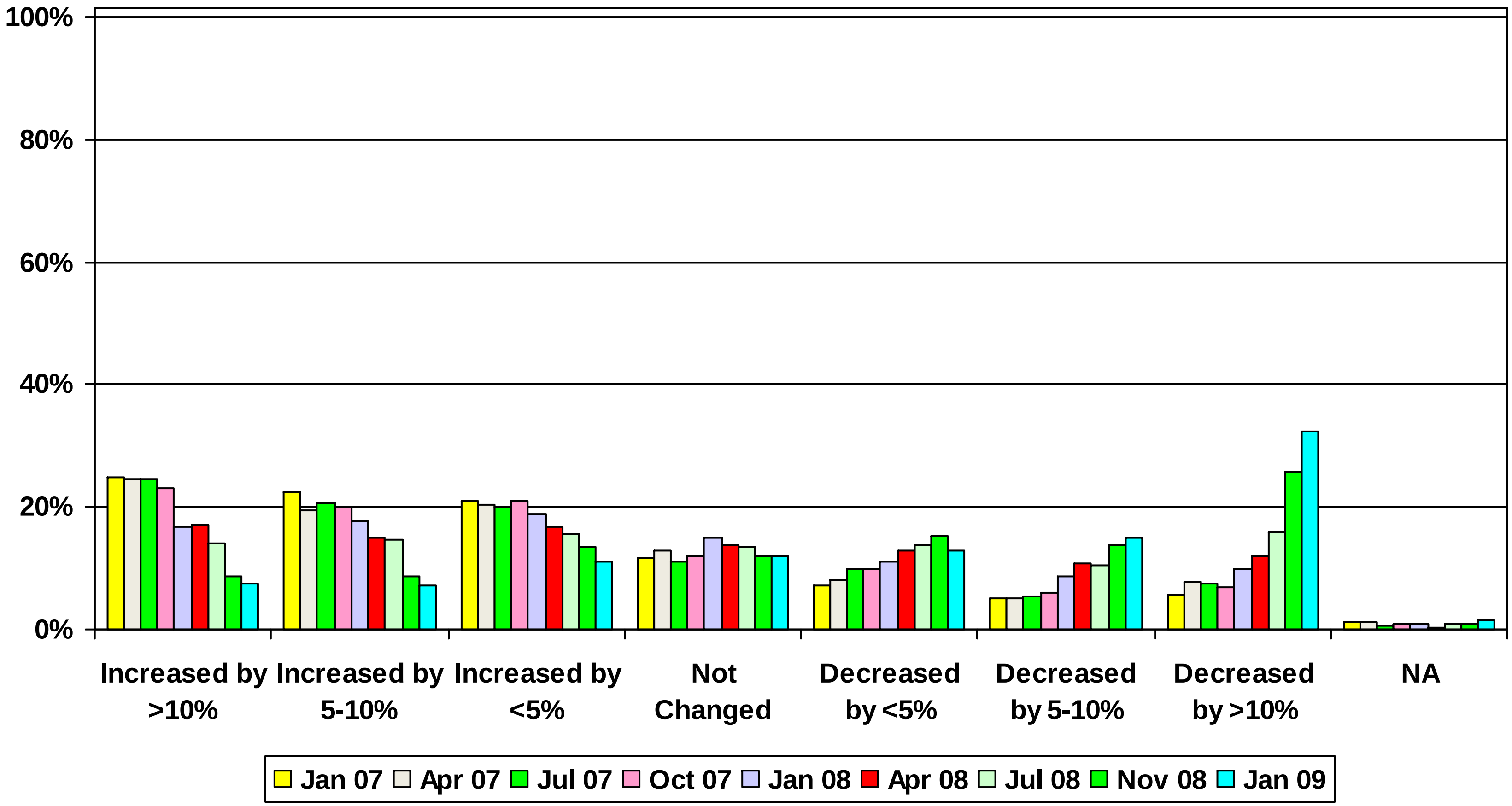
Key Performance Indicators
Total Revenue (Sales)

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



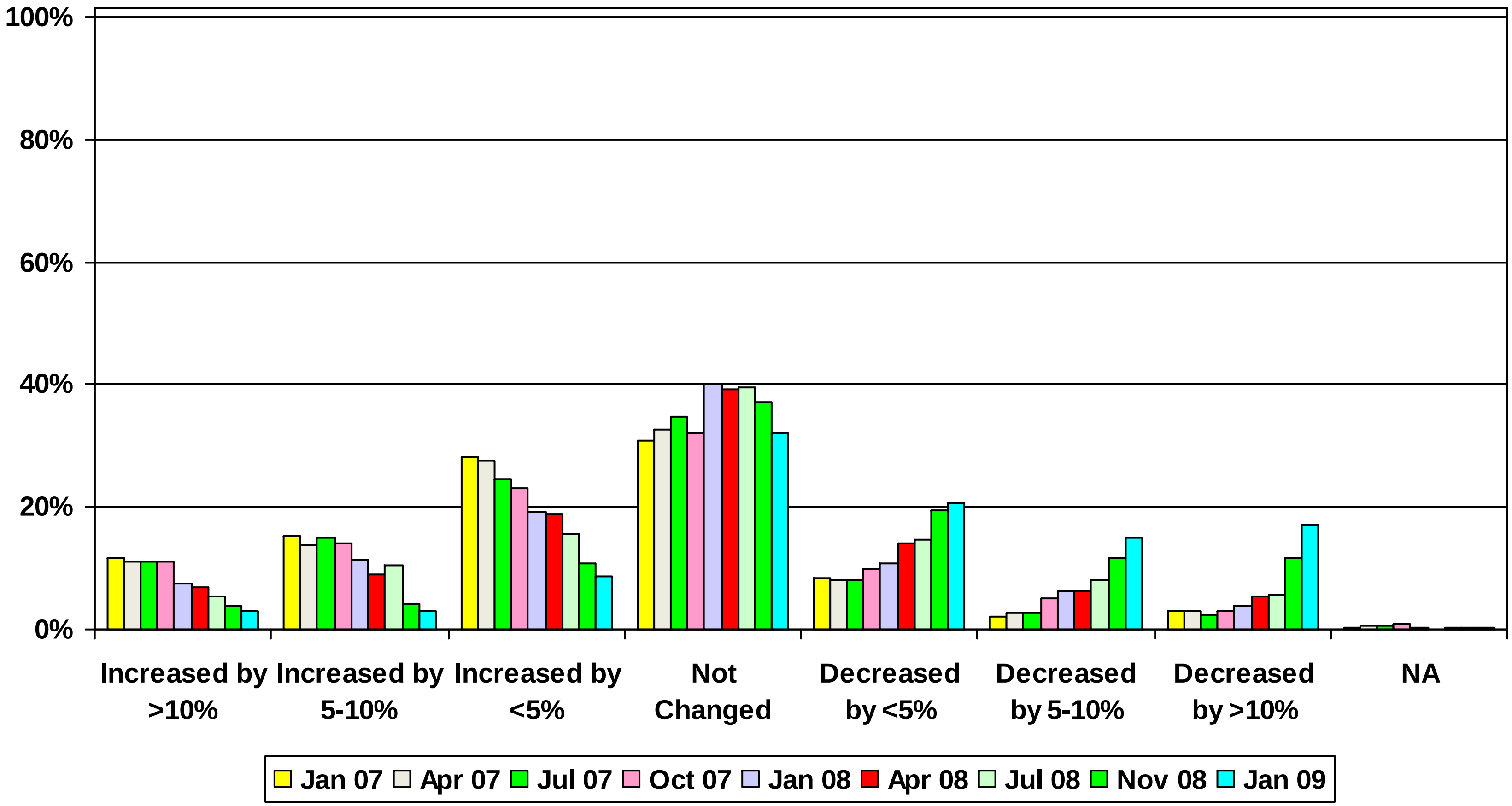
Key Performance Indicators
Total Profits (Net Income)

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



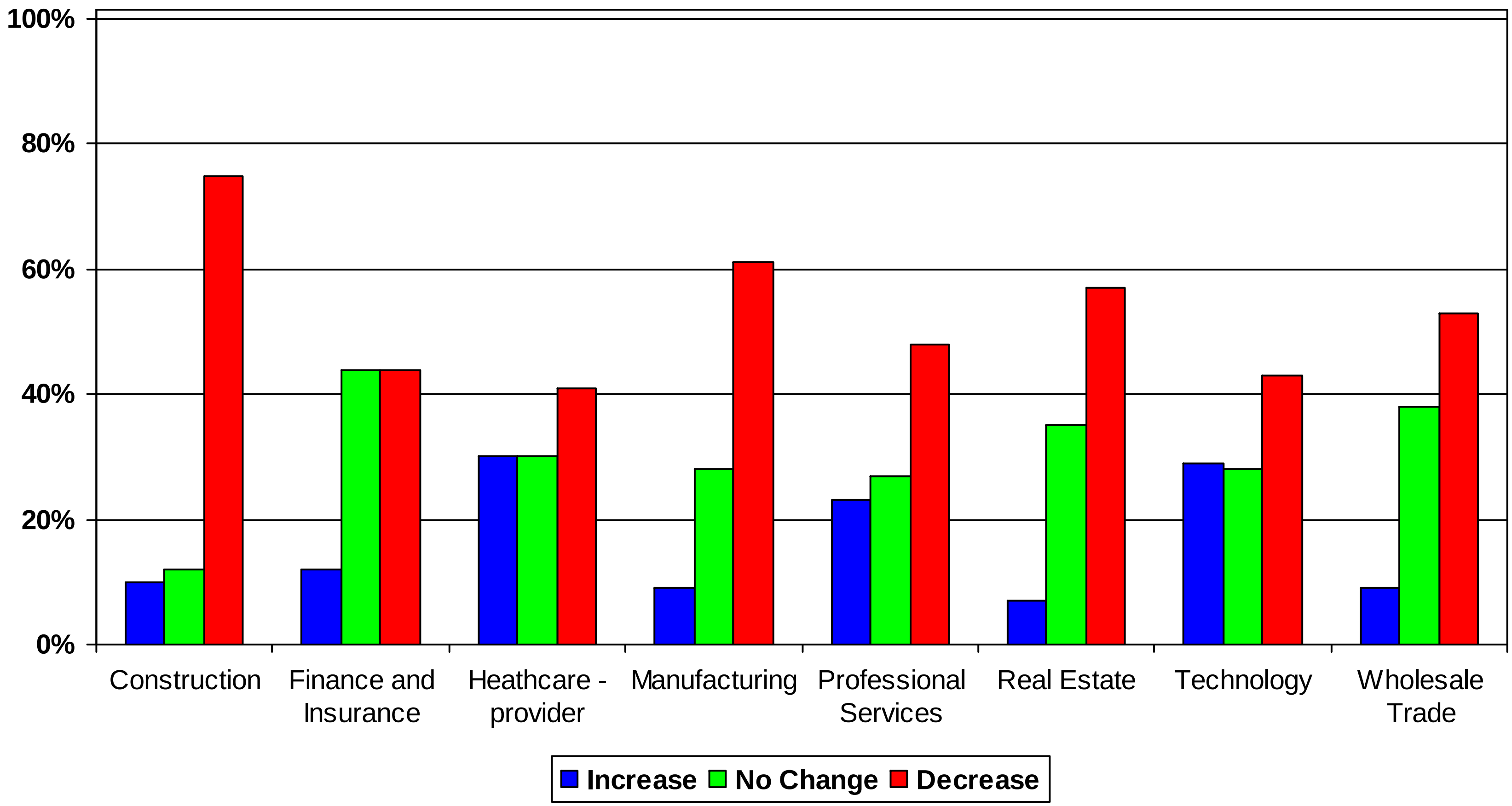
Key Performance Indicators
Number of Employees

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

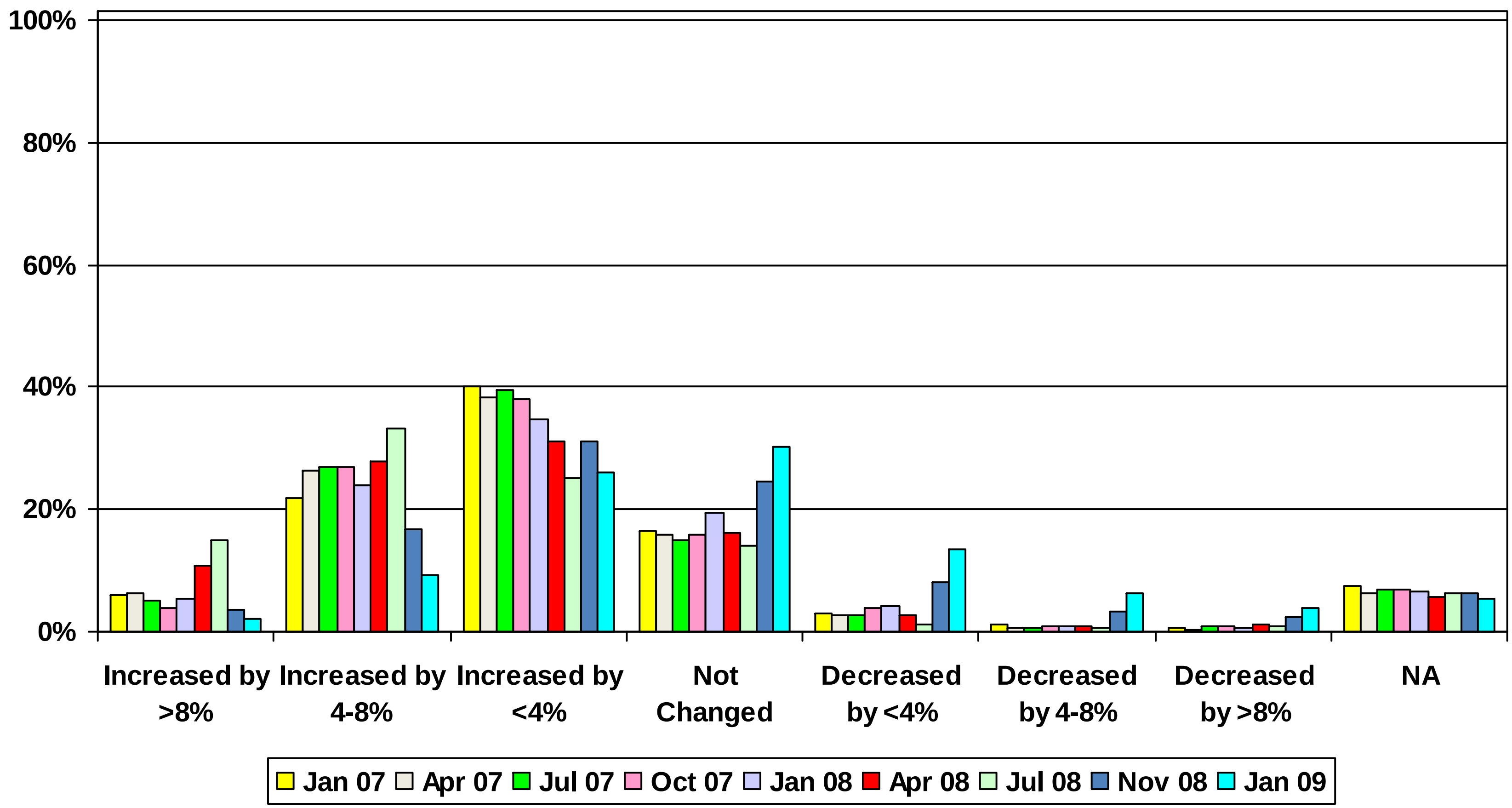


Key Performance Indicators
Pricing and Costs

- **Expectations for price increases that emerged when energy costs increased in 2008 have now disappeared**
  - Only about a third of respondents expect to pay or charge more for their products. This is down from about half last quarter
- **The number of organizations expecting to see their average salary and benefit costs increase has also declined**
  - **from 61% last quarter to 44% this quarter.**
- **Most organizations still expect healthcare costs to increase**
  - **expectations for the size of the increase are trending downward**

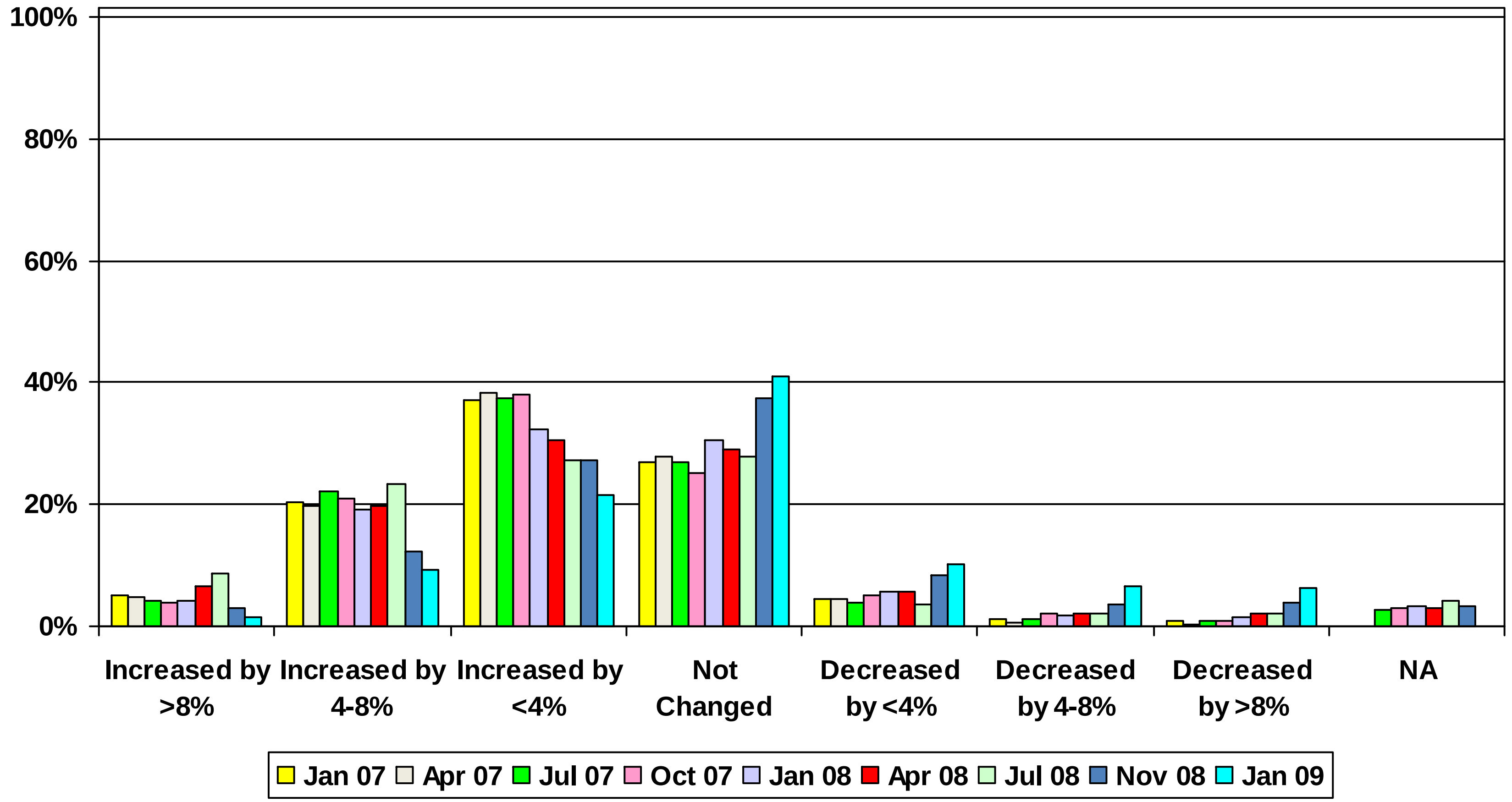
Pricing & Costs
Input Prices

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



Pricing & Costs
Prices your Organization Charges

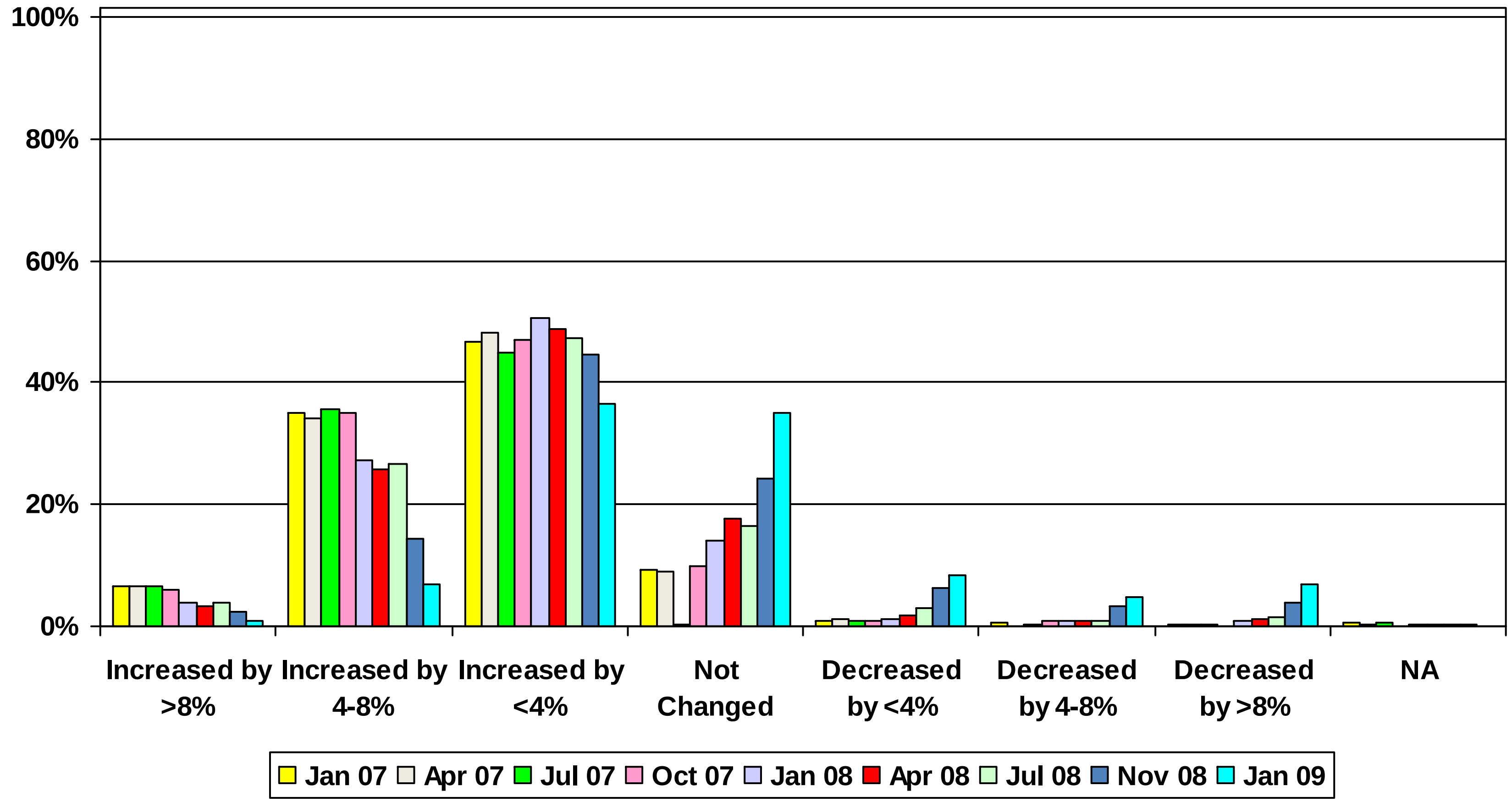
Thinking about the coming 12 months, please comment on the probable change for your organization for Prices your organization charges



Pricing & Costs
Average total salary & benefits

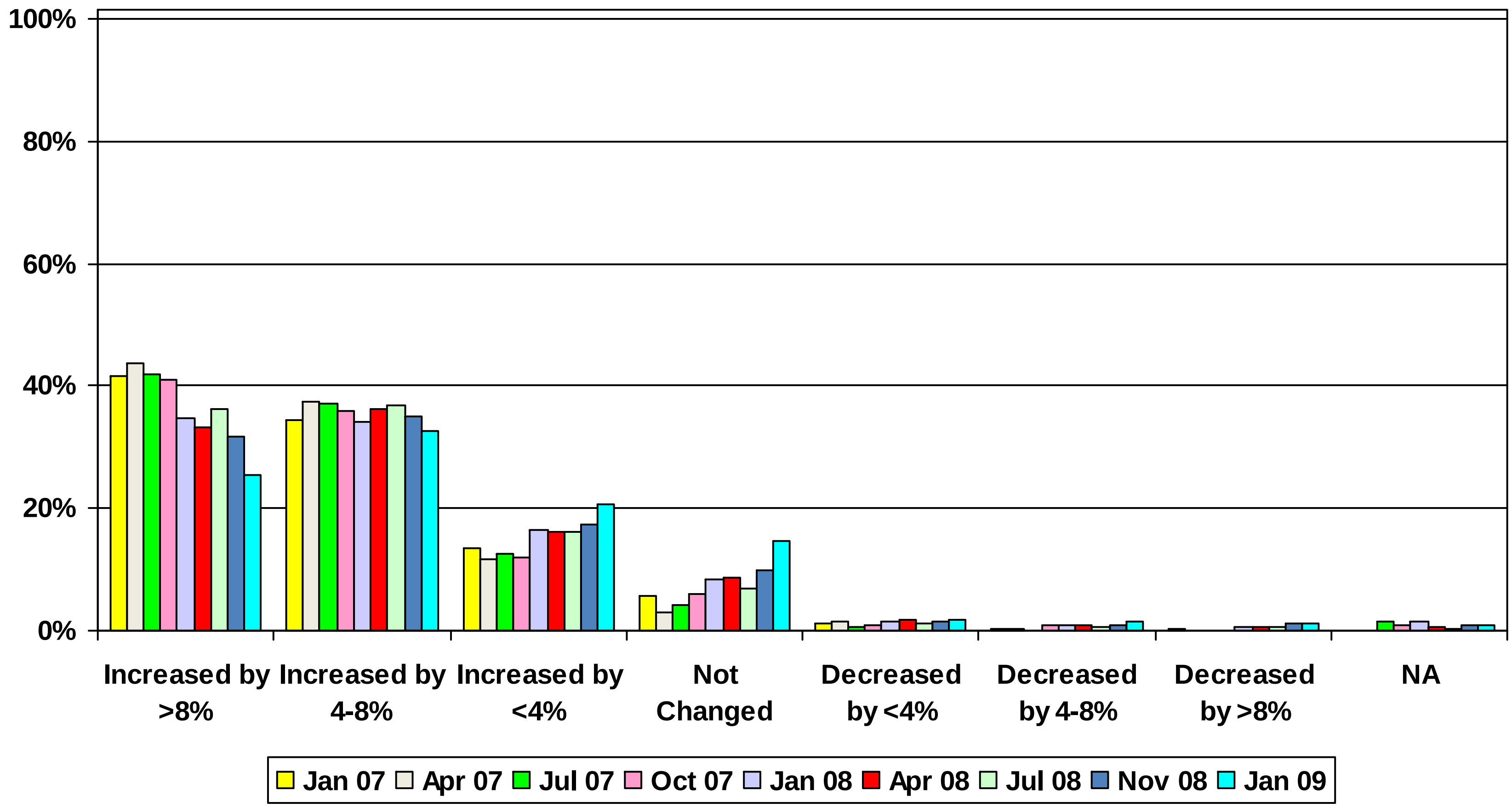
(excluding healthcare)

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



Pricing & Costs
Healthcare Costs

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

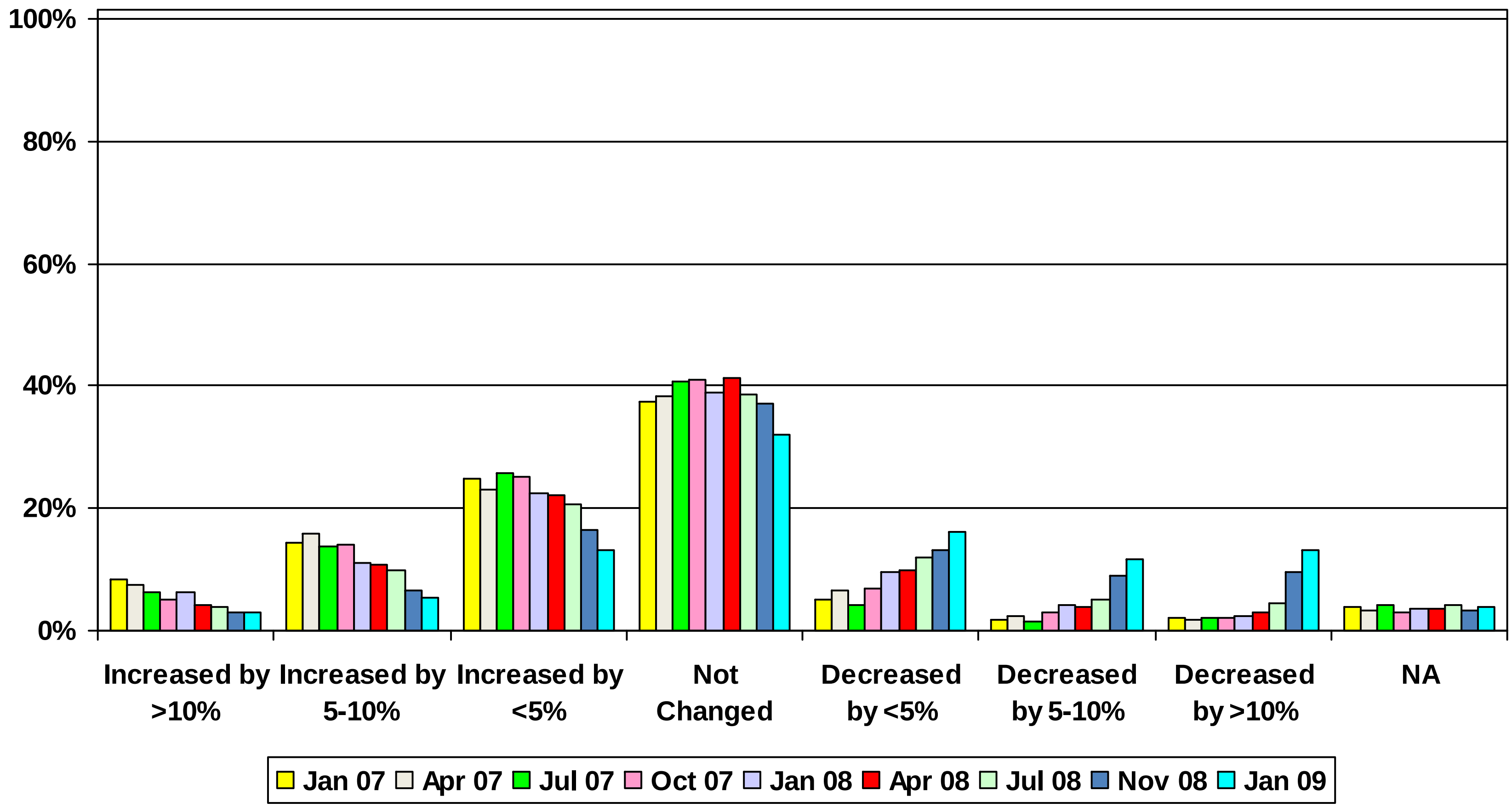


Key Performance Indicators
Spending Plans

- Spending plans continue the downward trend of the past year
  - Spending plans are down in all categories
    - The drop in plans for other capital investment is most pronounced
    - Product research and development plans are down but less so than other areas.

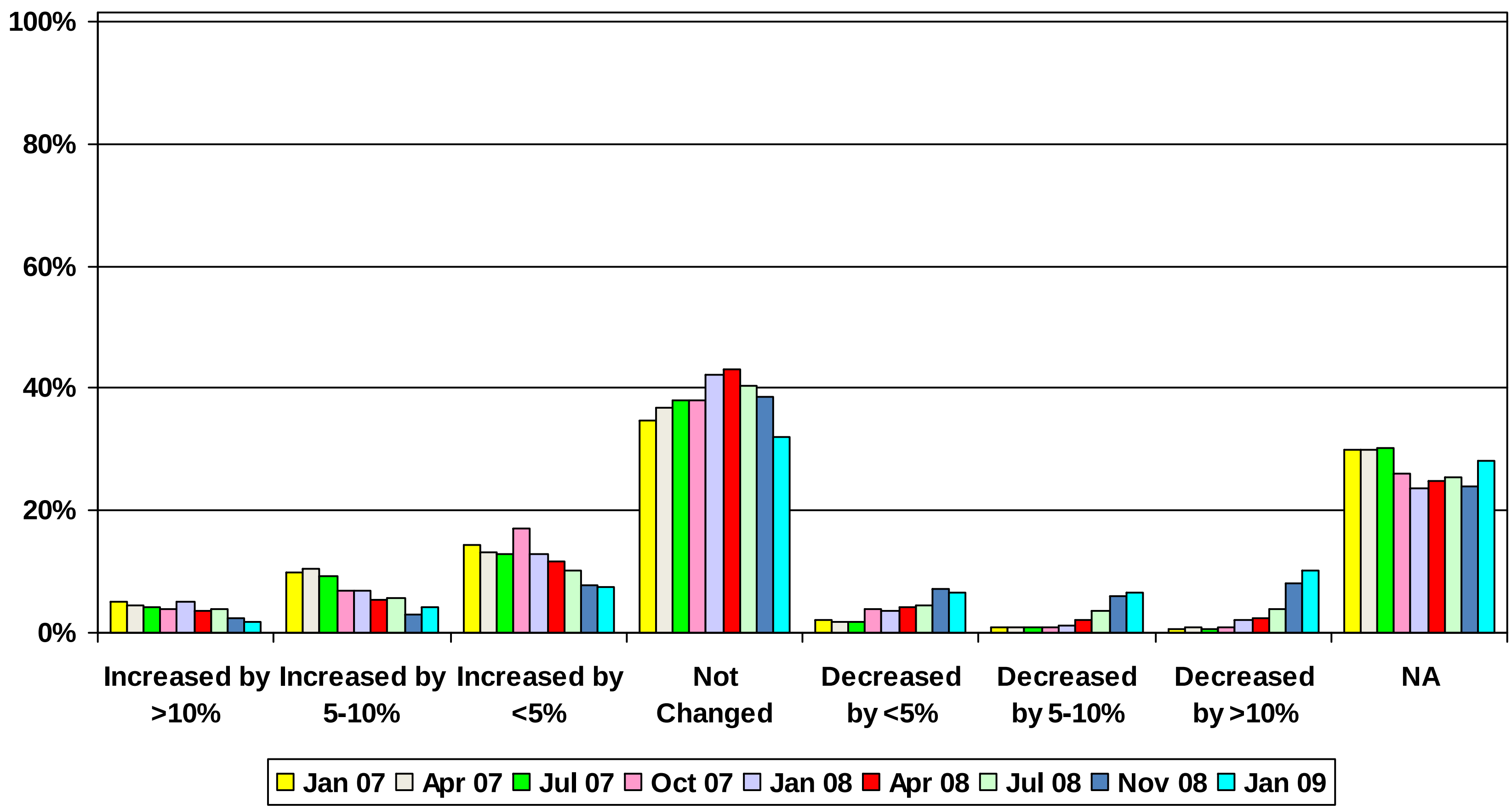
Spending Plans
Advertising, Sales & Marketing

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



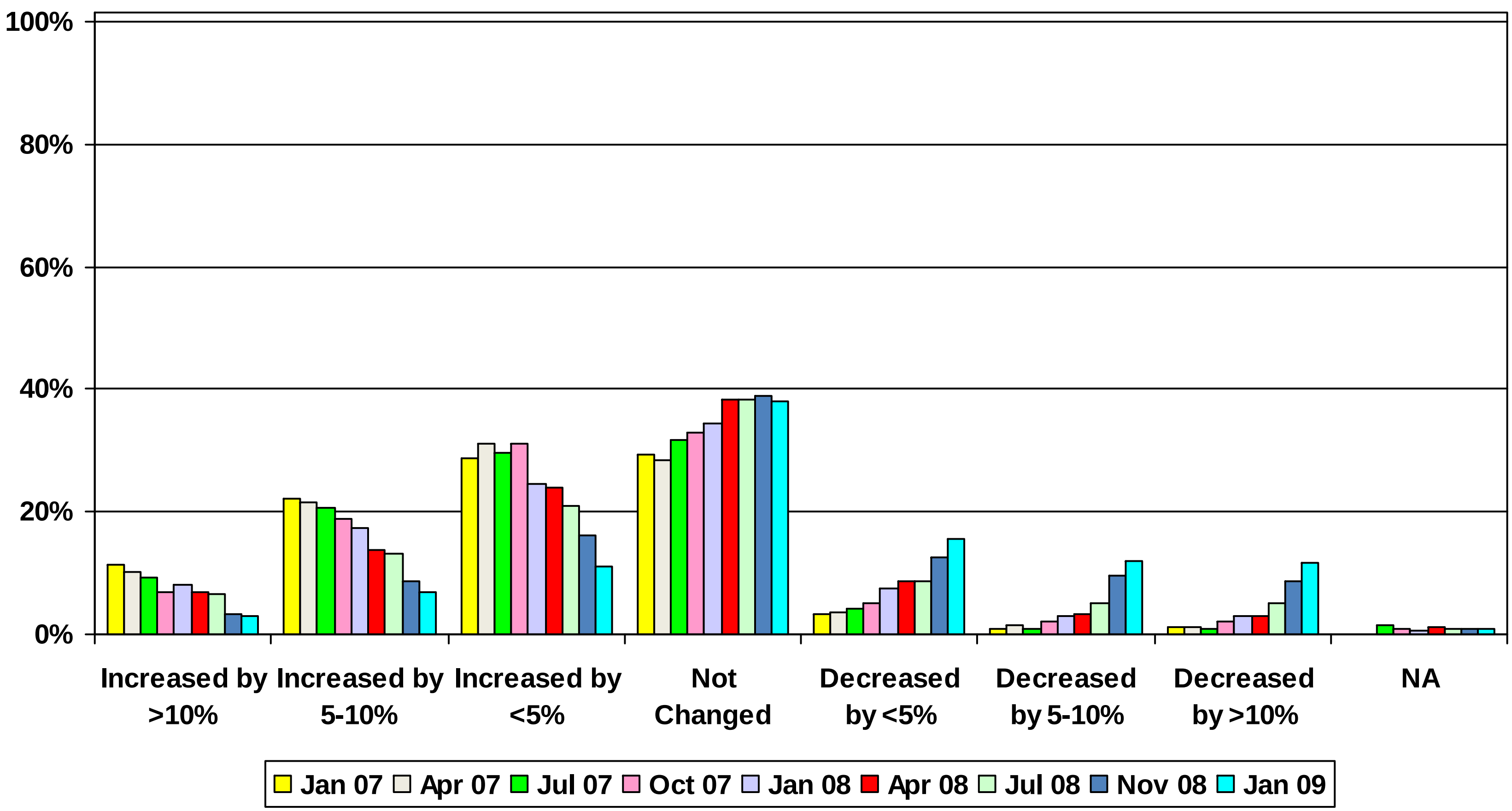
Spending Plans
Research & Product Development

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



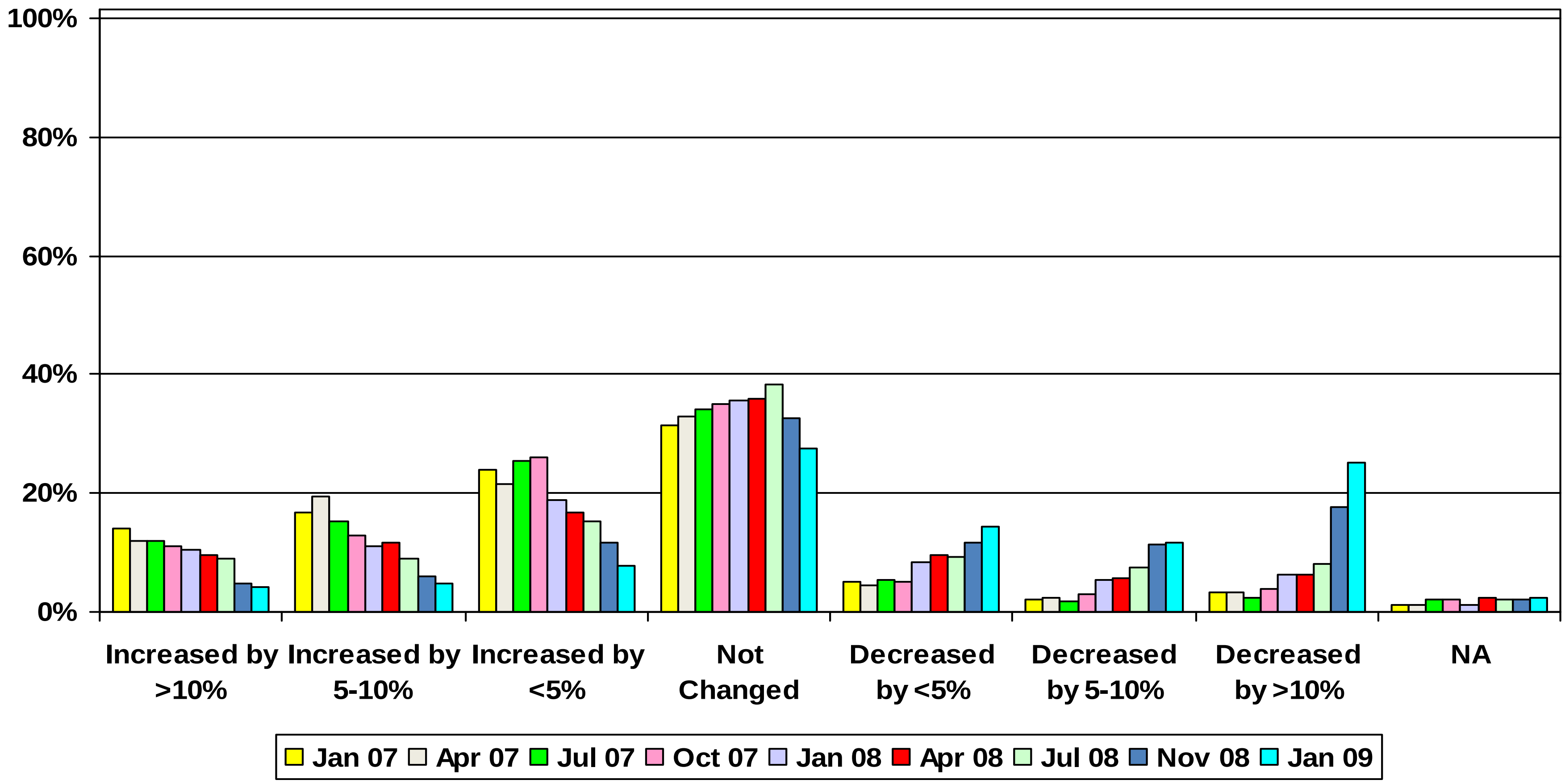
Spending Plans
Information Technology

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



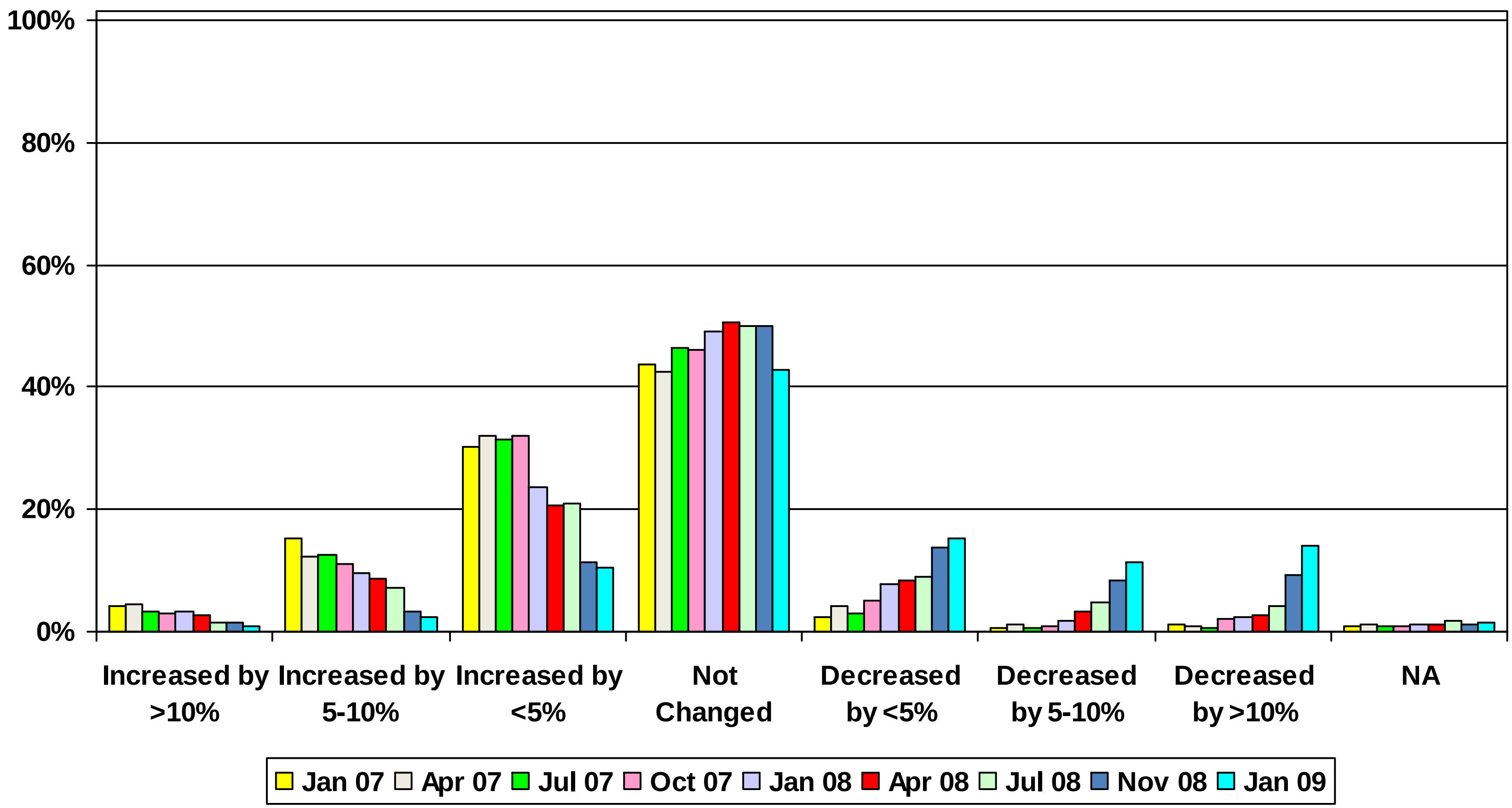
Spending Plans
Other capital investment

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



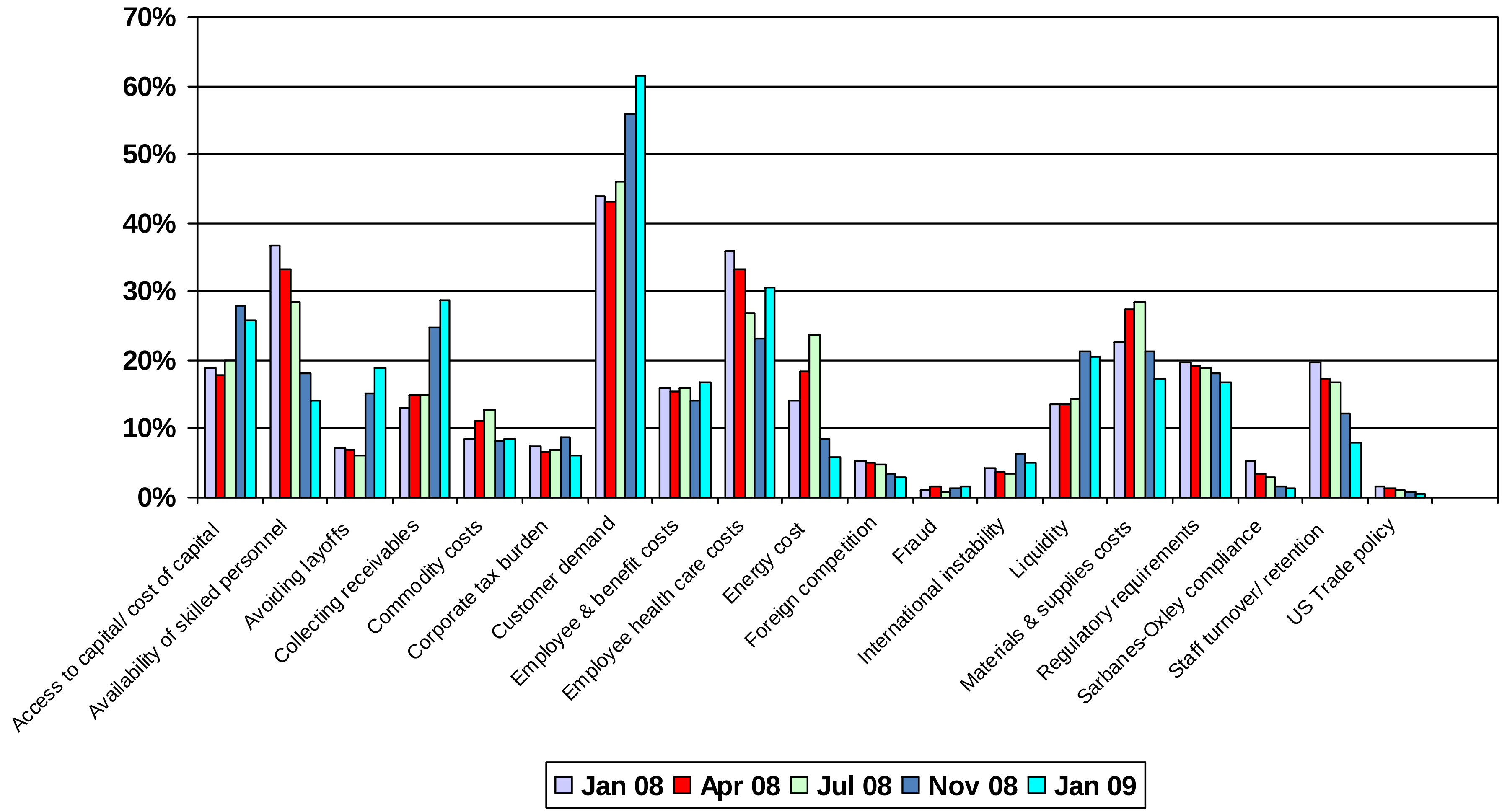
Top challenges facing organizations

- The Top 3 Challenges facing organizations have changed again this quarter
  - Customer demand remains #1
  - Employee Healthcare costs have moved back up to #2
  - Collecting receivables has stayed at #3
  - Access to capital/cost of capital has dropped to #4
- Availability of skilled personnel and staff retention both dropped again while avoiding layoffs increased
- The changes in these categories track with the open-ended comments on the economy in general where concerns about unemployment dominated this quarter.

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%



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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%

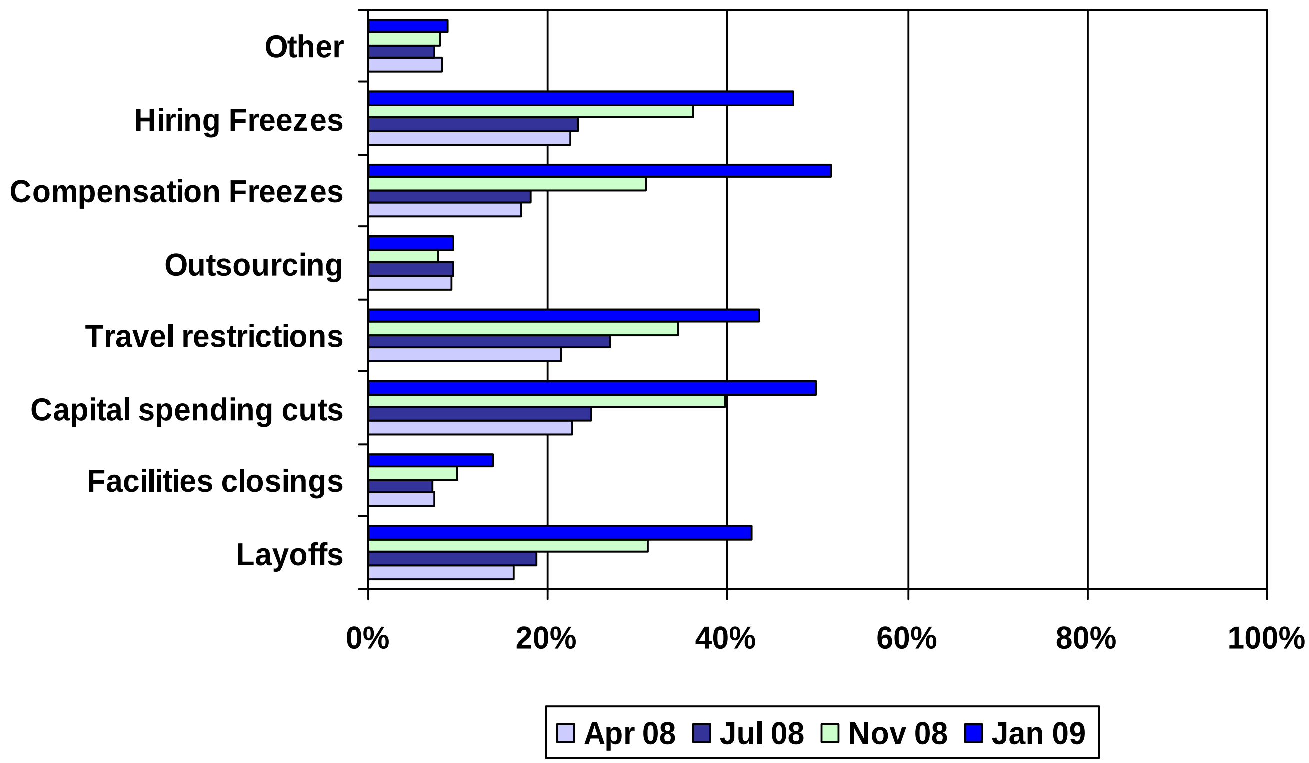
January 08	April 08	July 08	November 08	January 09
Customer demand	Customer demand	Customer demand	Customer demand	Customer Demand
Availability of skilled personnel	Employee health care costs	Materials & supplies costs	Access to capital/ cost of capital	Employee health care costs
Employee health care costs	Availability of skilled personnel	Availability of skilled personnel	Collecting receivables	Collecting receivables
Materials & supplies costs	Materials & supplies costs	Employee health care costs	Employee health care costs	Access to capital/cost of capital
Regulatory requirements	Regulatory requirements	Energy cost	Materials & supplies costs	Liquidity
Staff turnover/ retention	Energy cost	Access to capital/ cost of capital	Liquidity	Avoiding layoffs
Access to capital/ cost of capital	Access to capital/ cost of capital	Regulatory requirements	Availability of skilled personnel	Materials & supplies costs
Employee & benefit costs	Staff turnover/ retention	Staff turnover/ retention	Regulatory requirements	Employee & benefit costs
Energy cost	Employee & benefit costs	Employee & benefit costs	Avoiding layoffs	Regulatory requirements
Liquidity	Collecting receivables	Collecting receivables	Employee & benefit costs	Availability of skilled personnel

Responses to current conditions

- **Response to current economic conditions** – the number of respondents taking actions increased dramatically again this quarter.
  - Compensation freezes are being undertaken by 51% of respondents
  - Capital spending cuts are being initiated by 50% of respondents up from 40% last quarter
  - 47% (up from 36%) have or are expecting to freeze hiring while another 43% (up from 31%) have or expect layoffs.
  - 44% 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
  - 35% (up from 28%) are experiencing problems with customer collections
  - 23% are experiencing higher credit costs and tighter restrictions while 22% are finding that previously available sources of financing are no longer available. These are stable with the 4Q responses
- **Impact of adverse operating results on financing** – Two thirds of respondents either have not had adverse results or are not experiencing difficulties because of them

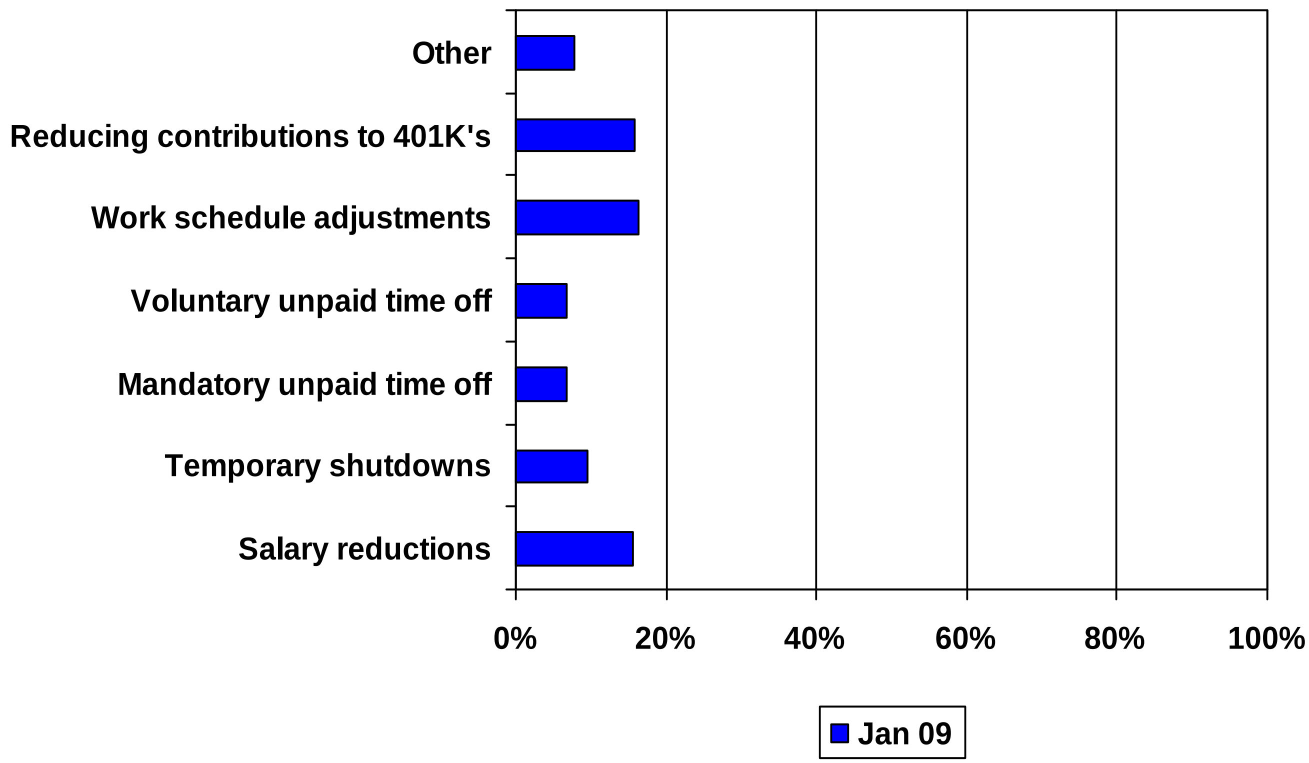
Response to Current Economic Conditions

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



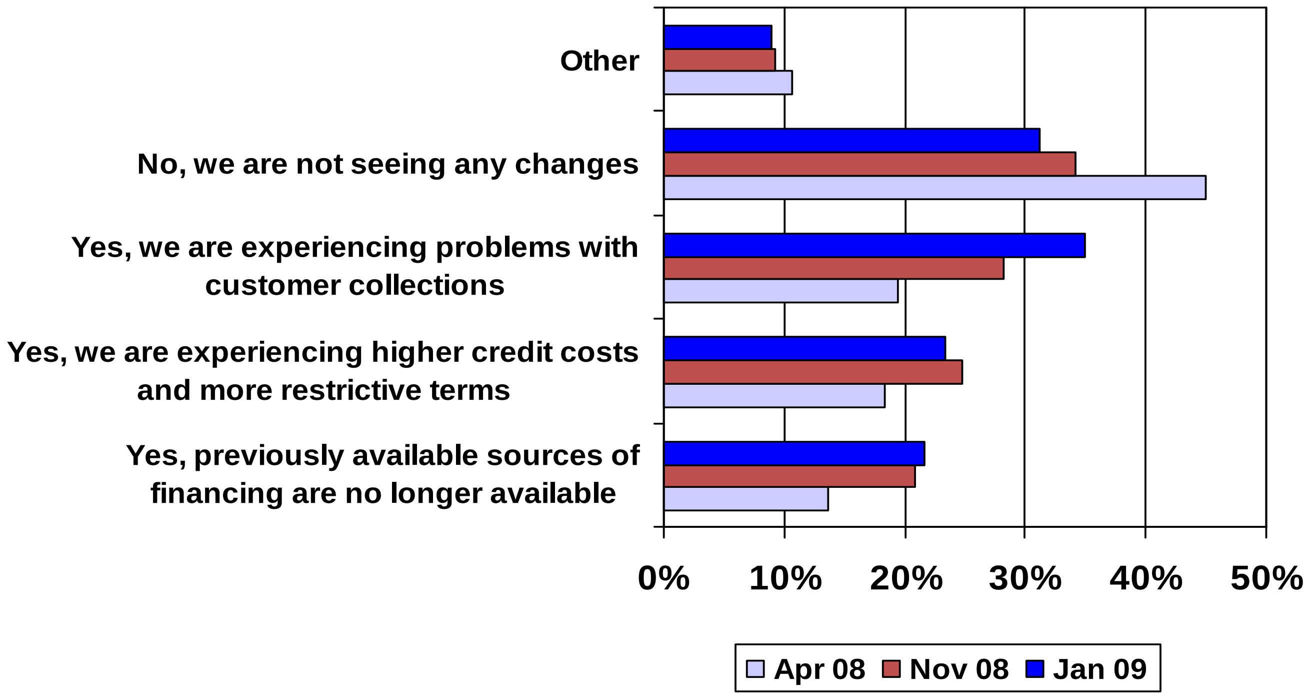
Reduce Cost while Retaining Employees

Have you implemented any of the following measures to reduce costs while still retaining employees?



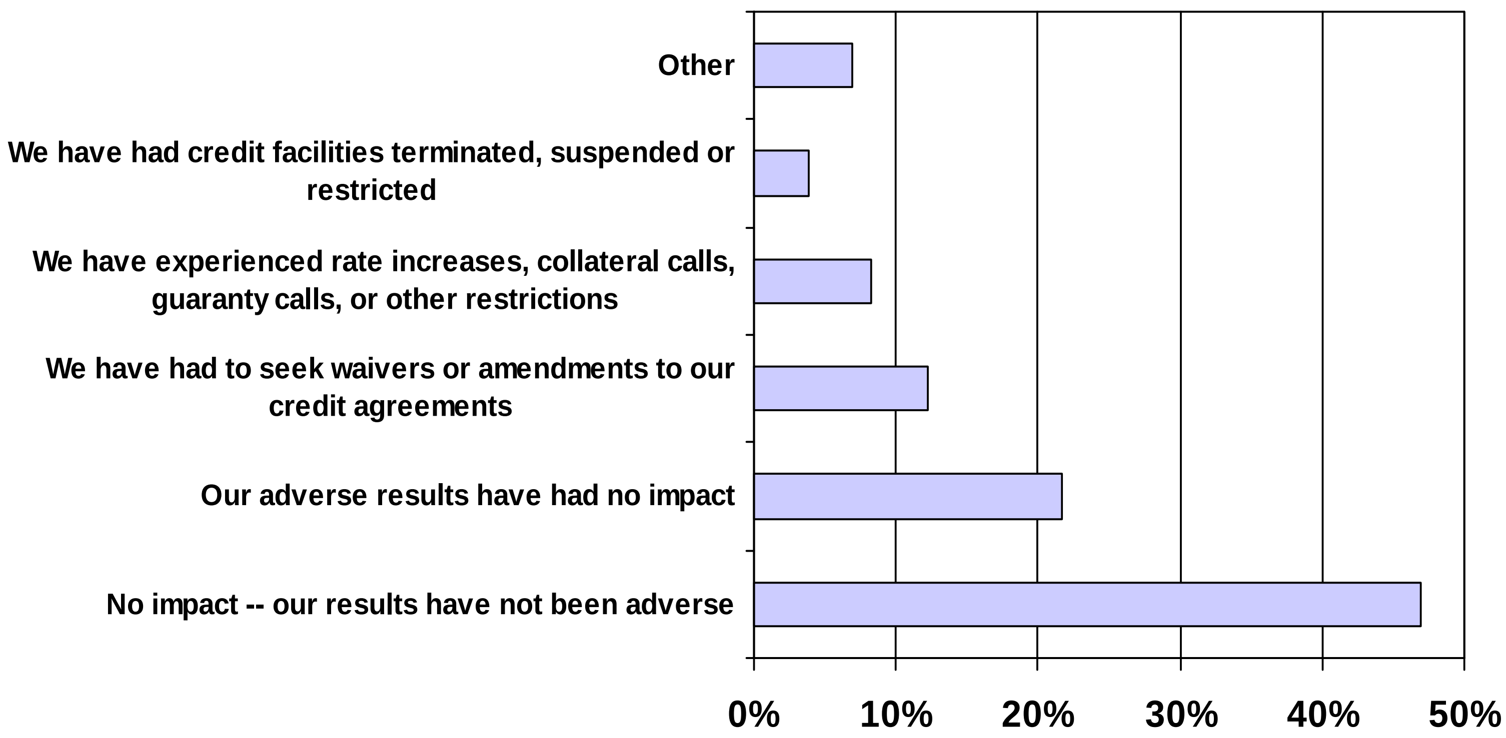
Credit Market Crisis Impact on Company

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

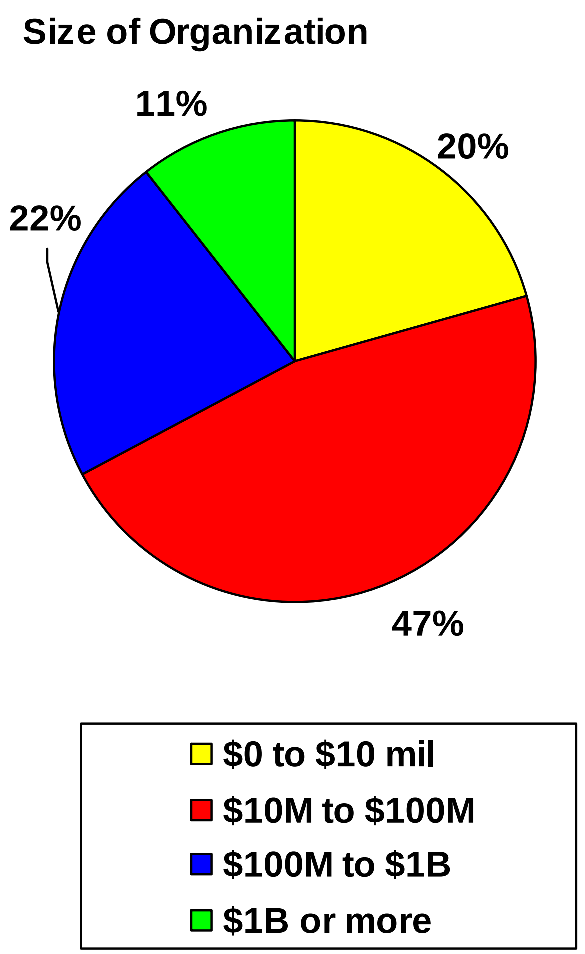


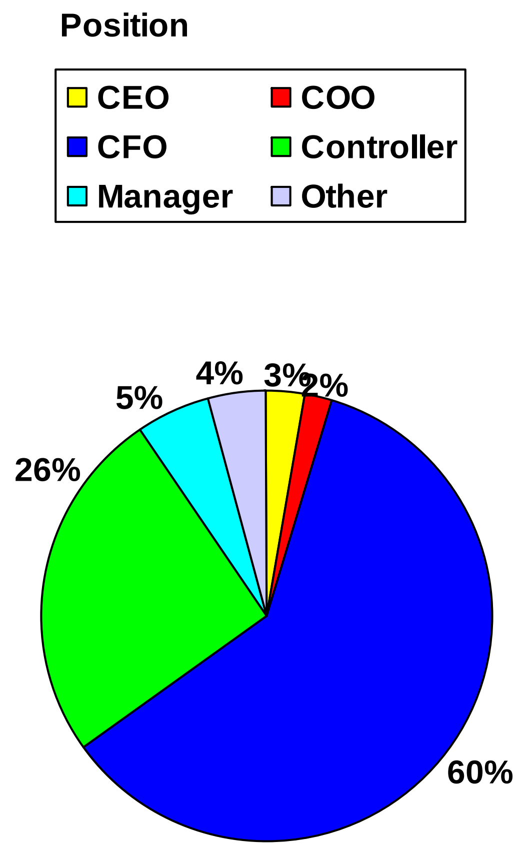
Impact of Adverse Operating Results on Credit

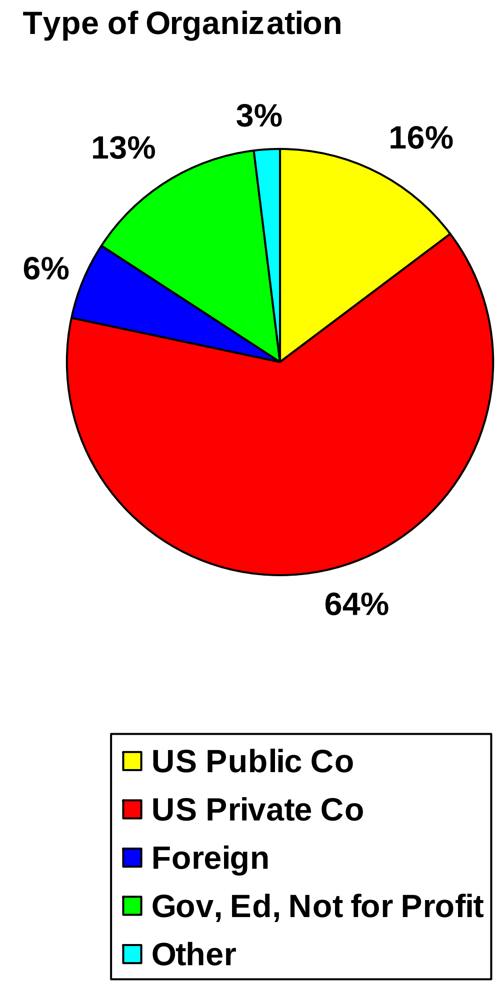
To what extent have adverse operating results impacted your company's ability to maintain financing?



Survey Respondents







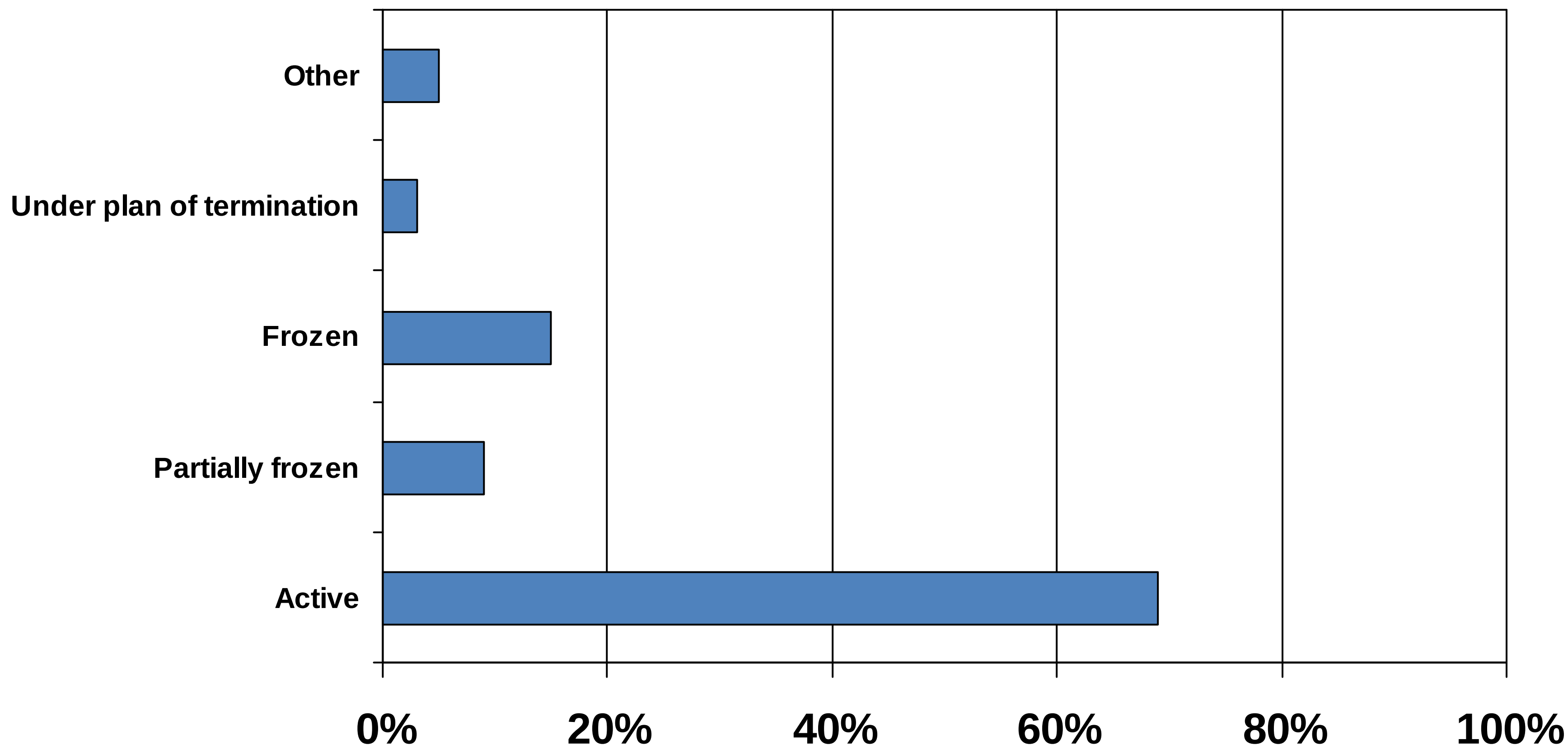
Defined Benefit Pensions

This survey contained a “survey within a survey” developed in partnership with UNC’s Kenan-Flagler Business School concerning Defined Benefit Pensions.

Defined Benefit Pensions

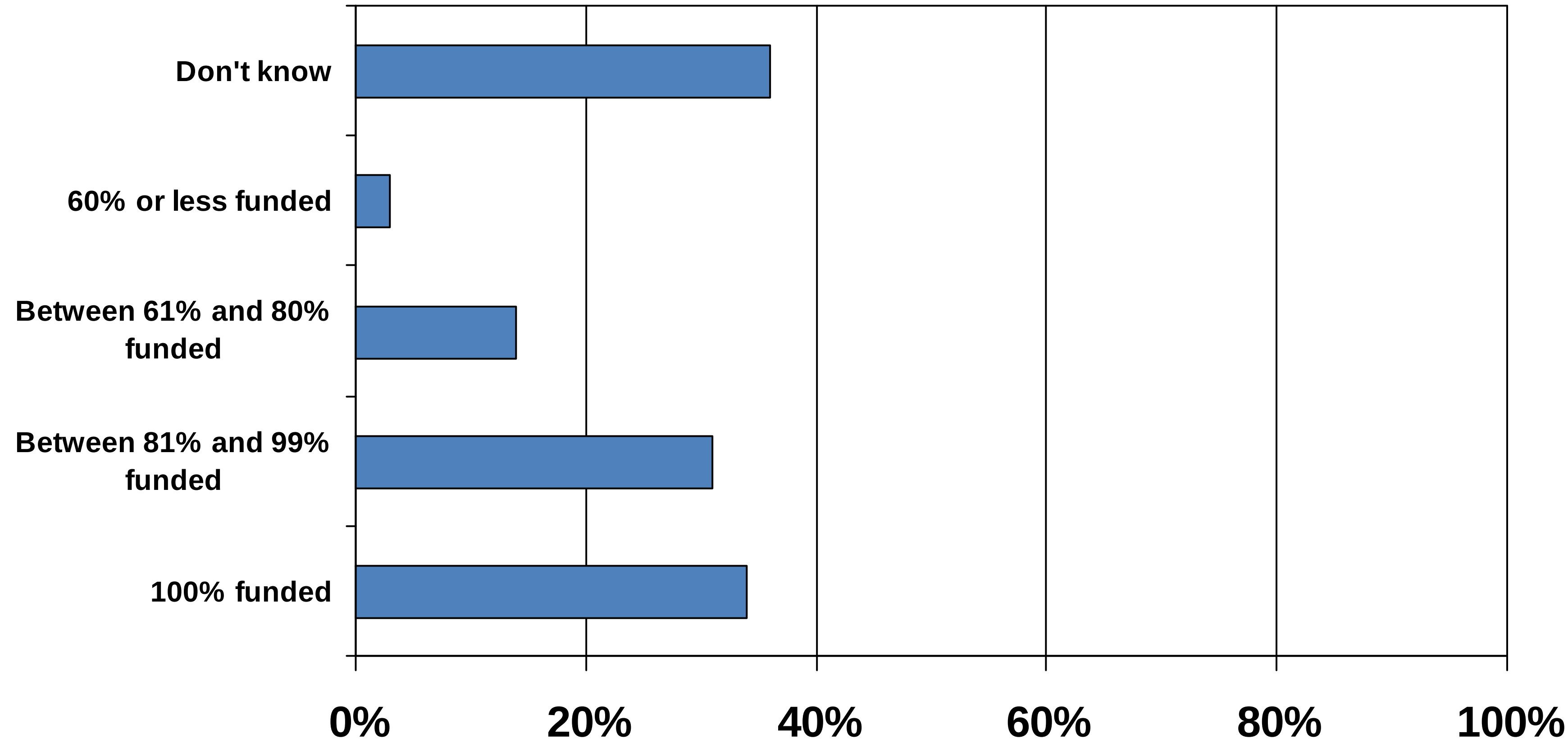
Status of Defined Benefit Pensions

Please describe the current status of your defined benefit pension.



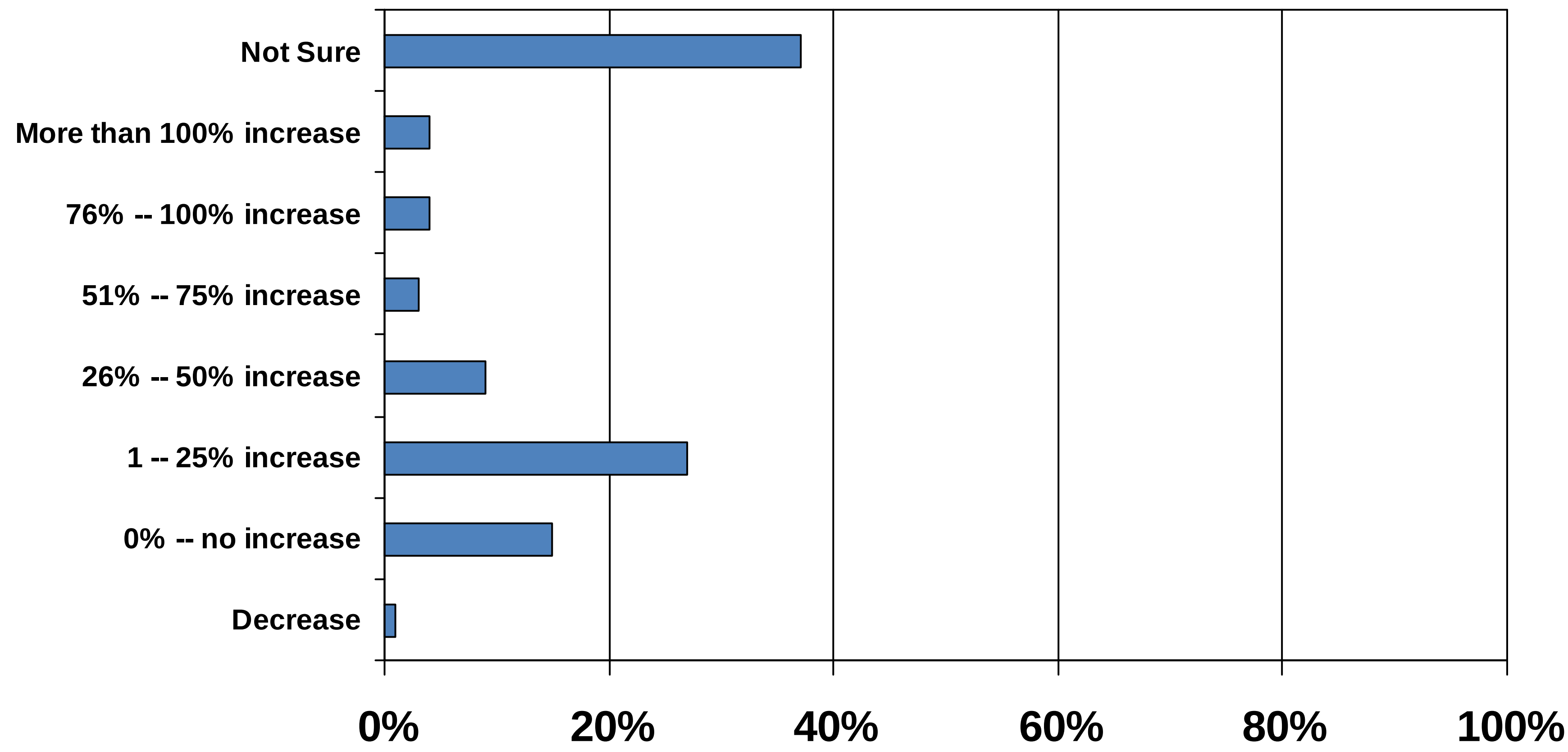
Funding Status of Defined Benefit Pensions at end of 2007

What was the funding status of your organization's defined benefit pension plan at the end of the 2007 plan year?



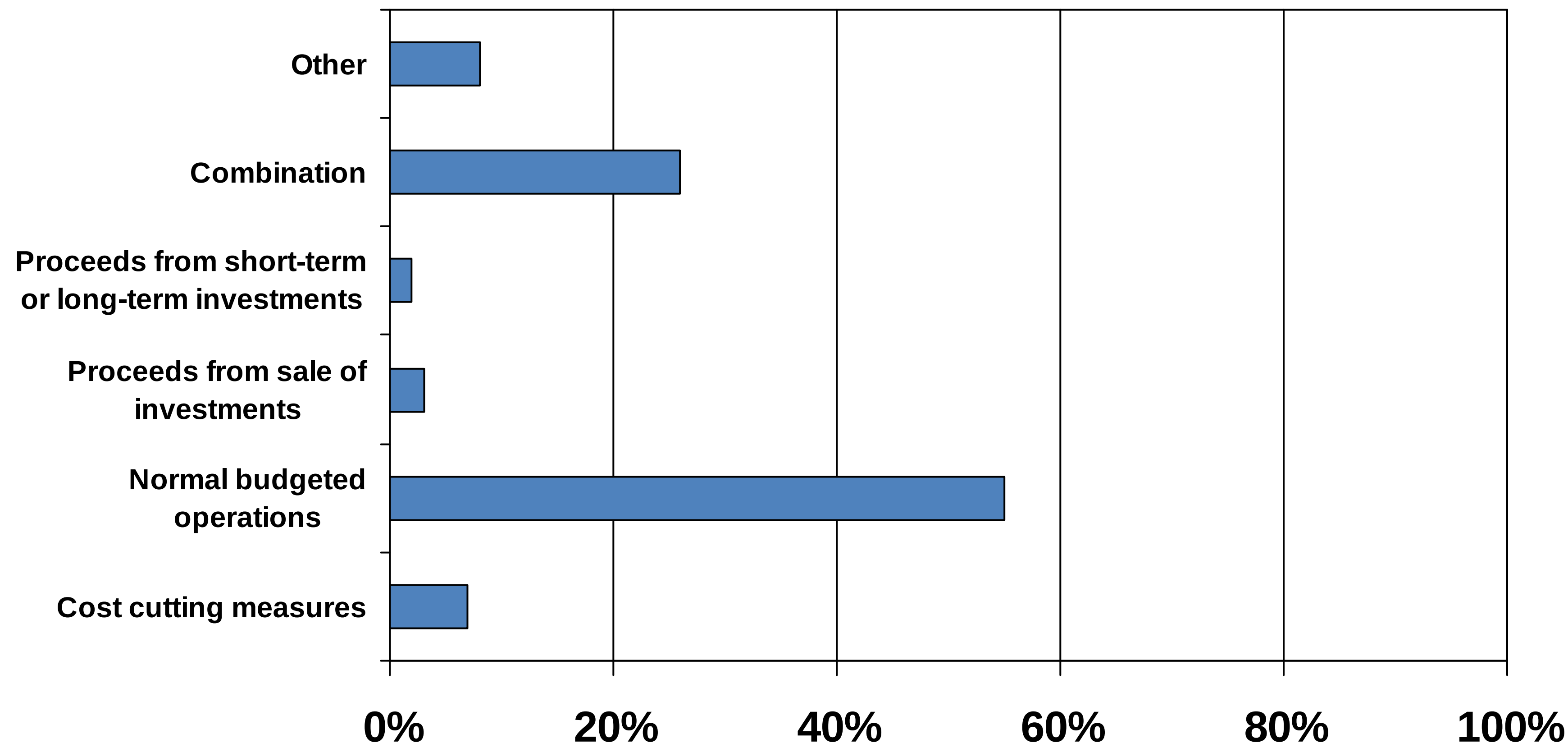
Increase in Fund Requirement due to Market Volatility in 2008

With the market volatility experienced in 2008, how much greater is your organization's minimum funding due in 2009 than what it was previously estimated to be?



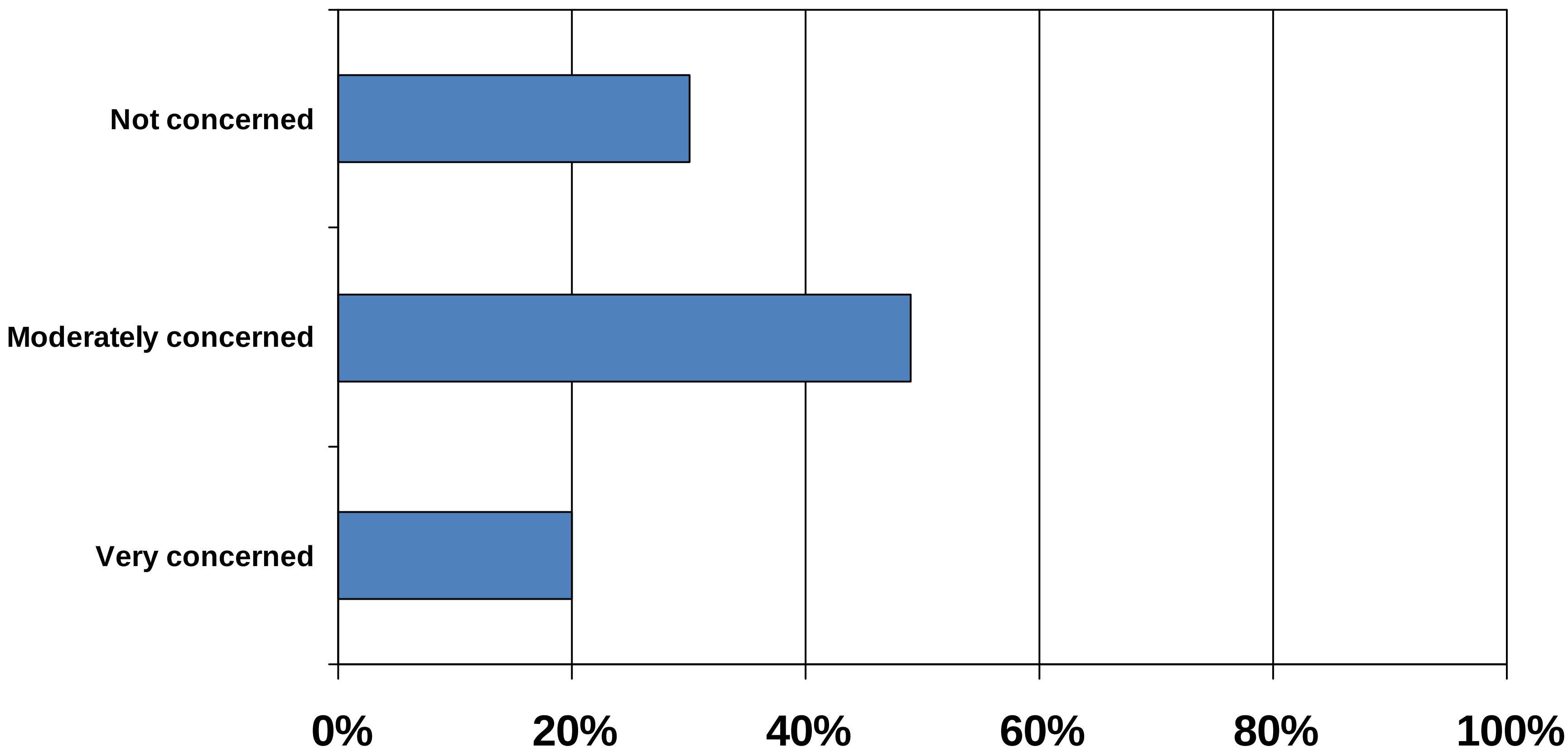
Meeting pension funding requirements in 2009

How do you anticipate meeting your pension funding requirements due in 2009?



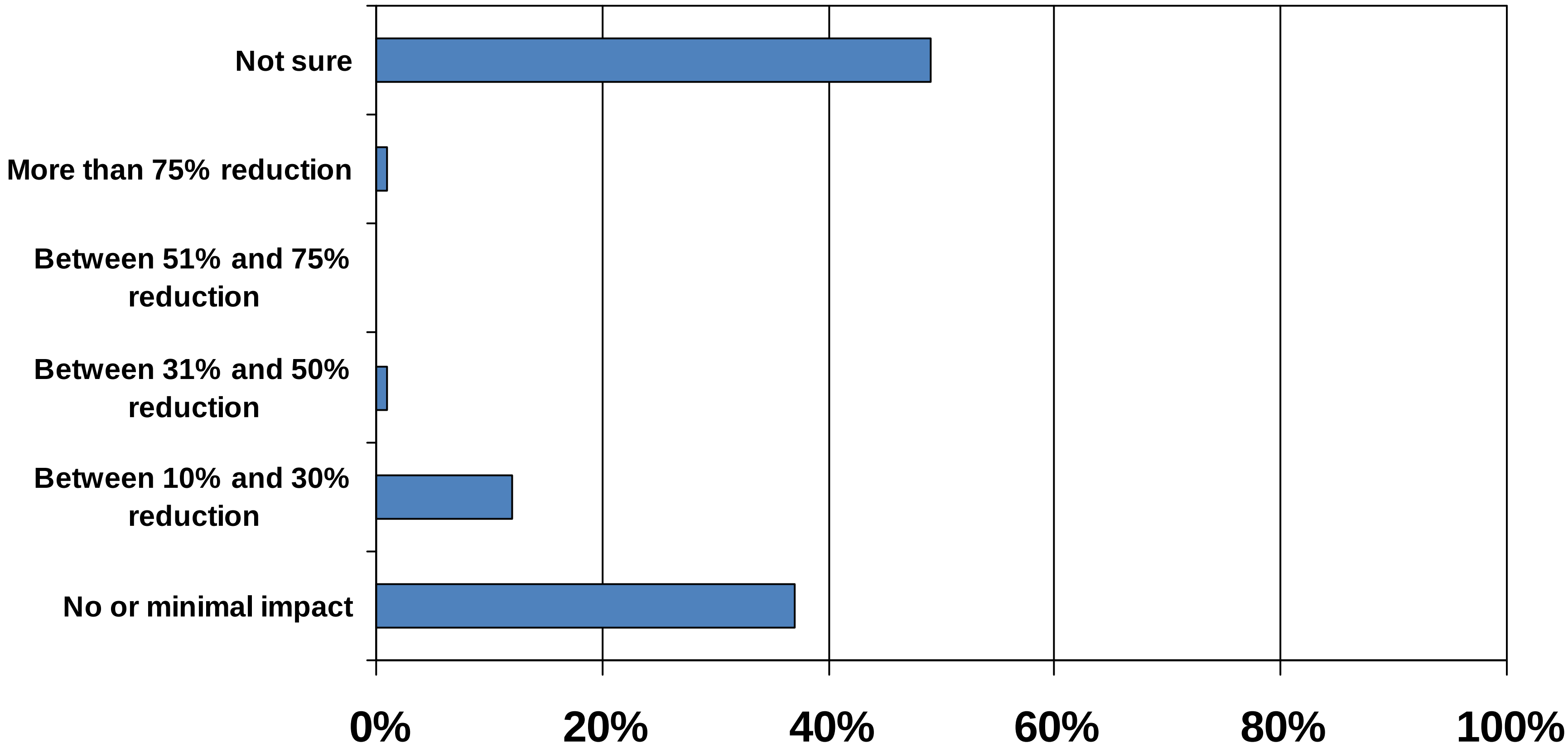
Concern about impact of minimum funding requirements

How concerned are you about the impact of the minimum funding requirements for your organization's defined benefit plan?



Impact of temporary PPA relief

On December 23, 2008 Congress approved emergency and temporary funding relief for defined benefit pension plans. The Worker, Retiree and Employer Recovery Act of 2008 provided the opportunity to smooth out unexpected asset losses arising from the current economic turmoil and modified the PPA target funding percentages. What impact did the temporary PPA funding relief have (or is expected to have) on your organization's minimum funding due in 2009?



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February 2009

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