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AICPA/UNC Kenan-Flagler

Business and Industry Economic Outlook Survey 4th Quarter 2010

UNC
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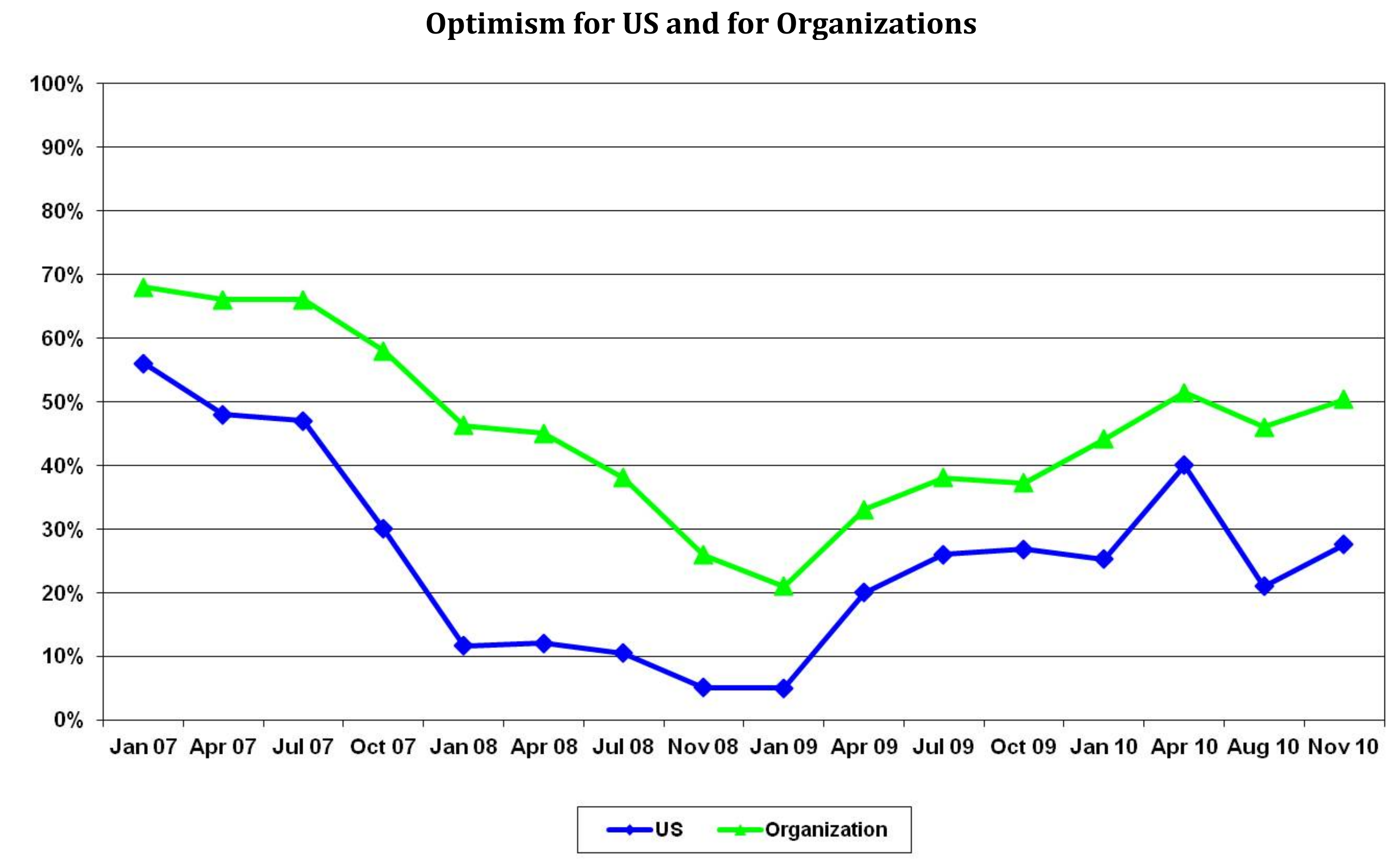
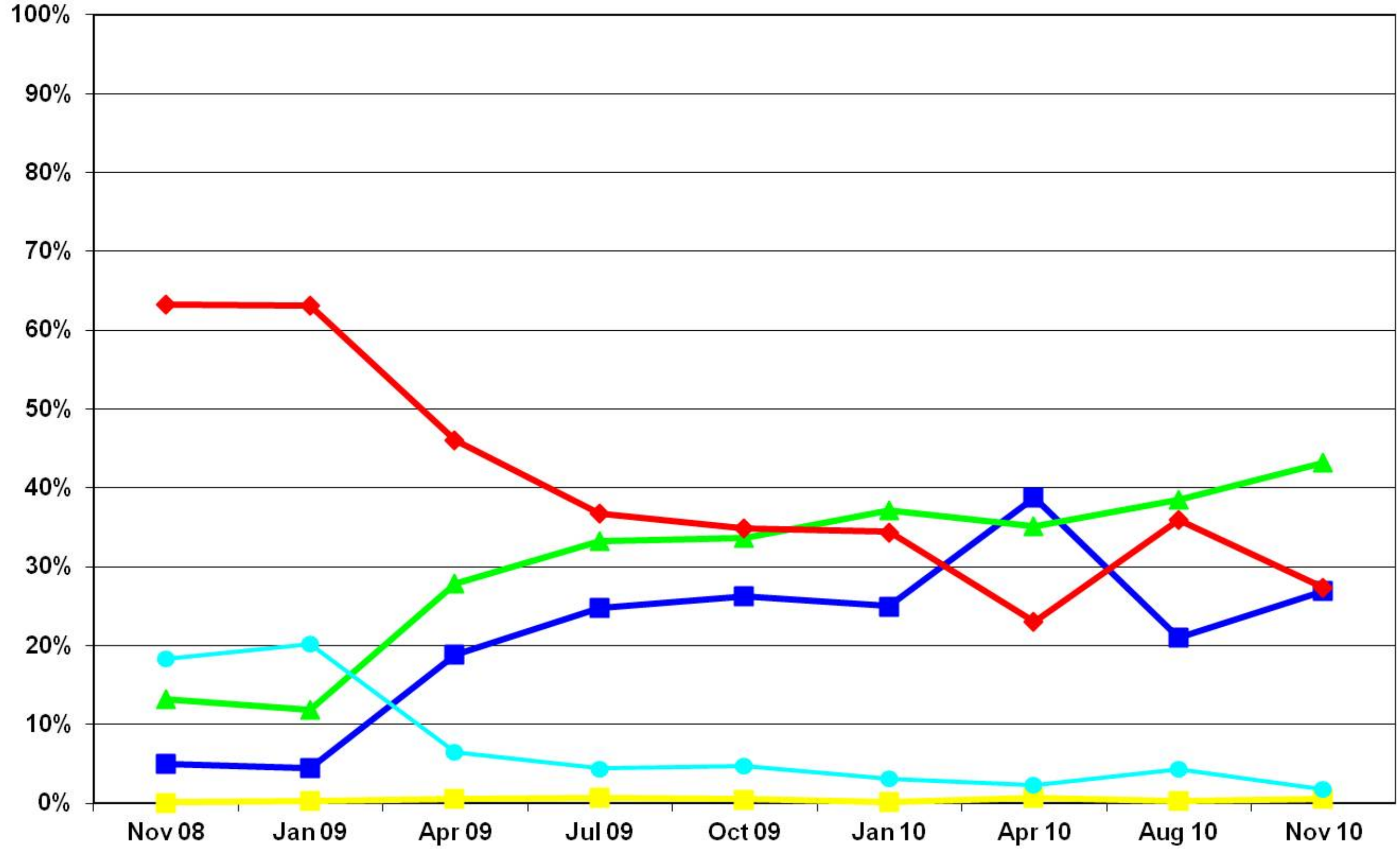
After a dramatic drop last quarter, CPA executives have regained their optimism about their organization's prospects and at least some of their optimism about the US economy as a whole. After dropping 5 points last quarter, organizational optimism rebounded 4% to 50%. Optimism about the US economy recovered 7 points of the 19 points it had lost last quarter. Despite the increased optimism the executives believe it will be a slow recovery. Only about a third (31%) of respondents think their organizations will return to pre-recession levels by the end of next year and another third (32%) think it will be after 2012 before their organizations recover. Expectations for the US economy are even more subdued with only 7% expecting the US economy will return to pre-recession levels by the end of 2011.



Outlook for the US Economy

This quarter's executive's outlook for the US Economy was marked by a fair degree of uncertainty. The largest number (43%) of respondents indicated that they had a neutral outlook on the economy. About equal numbers of respondents expressed optimistic and pessimistic views. Optimists generally cited increased demand and general signs of economic growth for both for their own organizations and the nation as a whole as reasons for their improved outlook. Pessimists were more likely to comment on unemployment, increasing government deficits and debt and government regulations and policies as reasons for their more negative outlook. Uncertainty was mentioned by respondents from all categories. Another area that stood out was the impact of the recent midterm elections with those feeling more optimistic following the recent midterms outnumbering those feeling more pessimistic by a 4 to 1 margin.

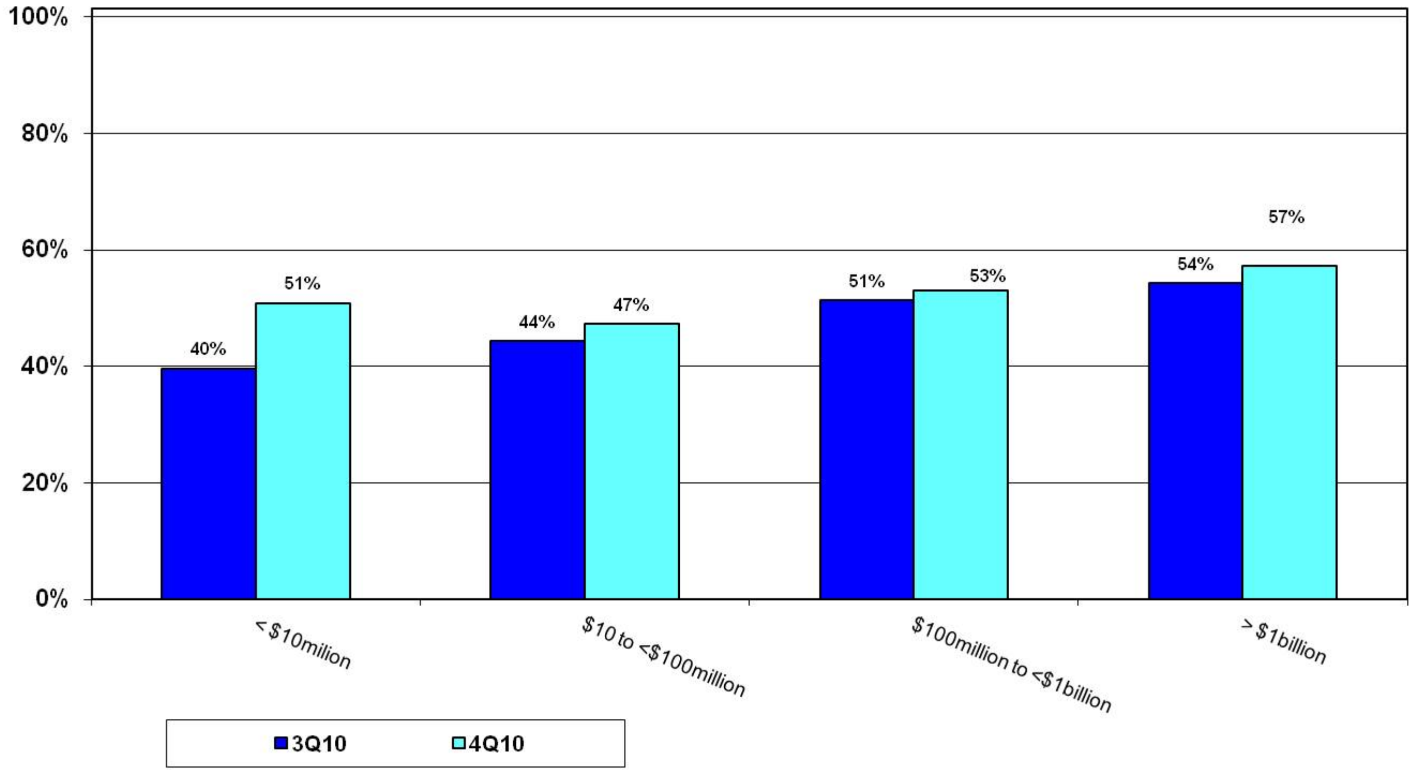


Outlook for Organizations

Optimism for CPAs' own organizations recovered all the ground it had lost last quarter. This quarter 51% of respondents expressed optimism concerning the outlook for their own organizations while only 17% were pessimistic. The optimism was also backed by increased expansion plans with 58% expecting their organizations to expand in the next 12 months. This is the highest percentage since the 4th quarter of 2007. Seventeen percent of respondents indicated that their businesses either had not seen a downturn due to the economy or have already returned to pre-recession levels. Another 4% expect to return to pre-recession levels by the end of 2010.

While the largest (revenues > $1 billion) companies continued to be more optimistic than the smallest companies (revenues < $10 million) the gap between the two closed somewhat. Optimism among respondents from the smallest companies increased 11% from 40% to 51% while optimism among respondents from the largest companies increased just slightly from 51% to 54%. The largest companies were also much more likely to expect to expand in the next 12 months with 70% indicating that they expected to expand while 54% of the executives from the smallest companies said they had expected to expand.

Optimism for Organizations by Annual Revenue



Respondents from large organizations were also more likely to expect their organizations to expand over the next 12 months. Sixty-three percent of respondents from very large (> $1billion) organizations expect to expand while only 50% of respondents from the smallest (< $10million) expect expansion. The respondents from very large organizations were also more likely to expect increases in revenue and profits than those from the small companies.

Respondents from the Technology, Professional Services, and Retail Trade and Manufacturing industries were the most optimistic this quarter. Sixty-nine percent of respondents from Technology, 60% of those from professional services and 57% of those from manufacturing and retail trade answered that they were optimistic or very optimistic about the outlook for their organization for the next 12 months. Optimists outnumbered pessimists for all industries but Healthcare - Providers where the numbers of optimists and pessimists were equal – 34% pessimistic and 34% optimistic. Respondents from Construction, Real Estate and Healthcare Providers were the least optimistic with 35%, 41% and 34% respectively answering that they were optimistic about the outlook for their organization over the next 12 months.

Overall expectations for growth in revenue and profits, prices, costs and spending were stable with last quarter with a slight majority of respondents expecting increases across most categories. However when compared with 4Q 09 significant improvement can be observed in the percent of respondents expecting an increase in revenues.

Revenue, Profits and Employees – Comparison of percentage of respondents expecting increases

	4Q09	4Q10	Δ 4Q 09 to 4Q10
Revenue	52%	61%	+9%
Profits	49%	55%	+6%
# of Employees	28%	34%	+6%

The Corporate Optimism and Corporate Expansion Indices

This quarter both the COI and CEI decreased slightly reflecting the slightly less optimistic outlook and expansion plans for respondents.

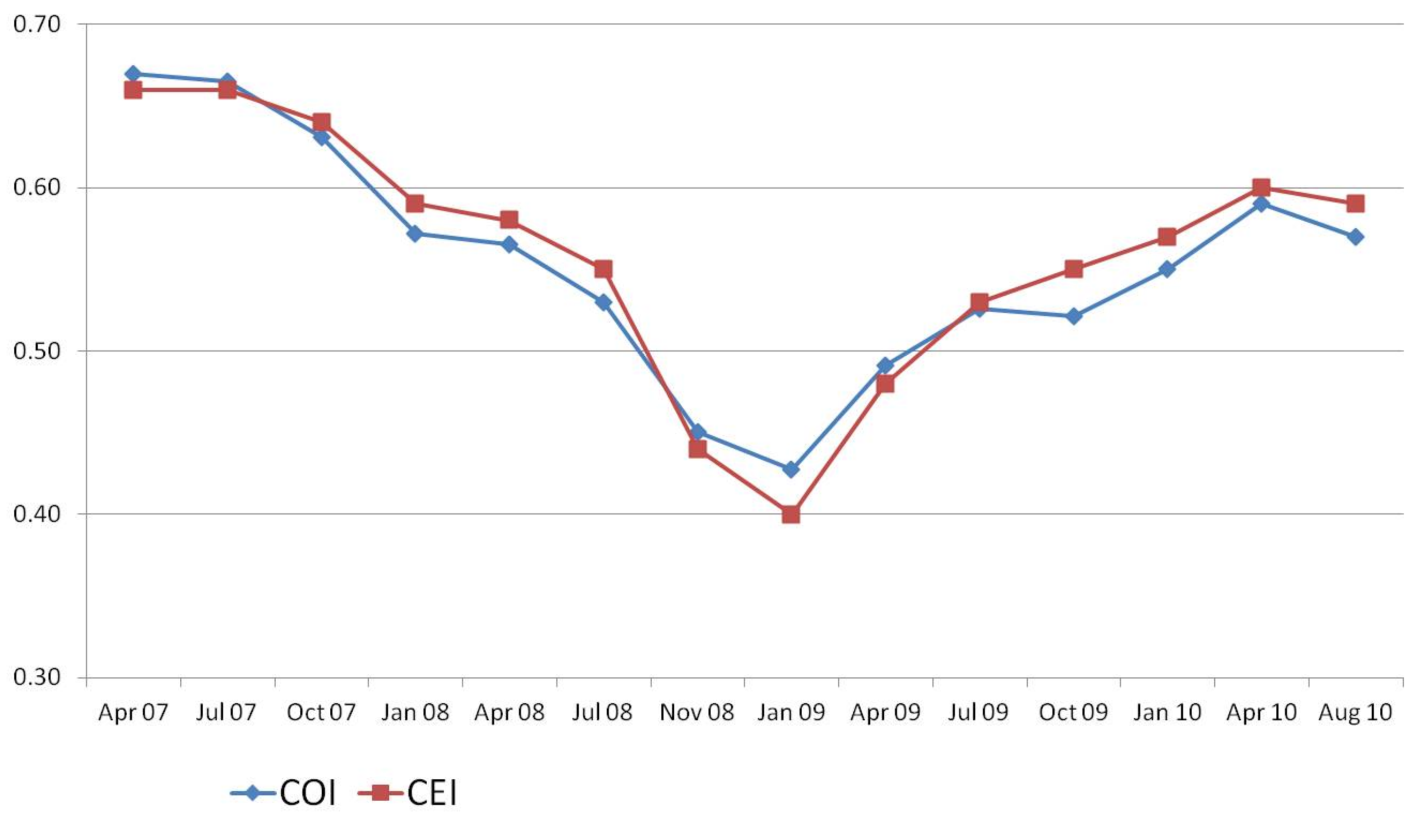
In 4Q 2009 the AICPA/UNC Kenan-Flagler Economic Outlook Survey introduced two new indices the Corporate Optimism Index (COI) and the Corporate Expansion Index (CEI). Developed by UNC Professor Dr. Mark Lang, both indices are based on answers to questions concerning respondents own organizations and are designed to provide leading information as to the overall health and direction of the economy.

The COI is based on the question: "Please select the rating that best describes your view for the economic outlook for your own organization for the next 12 months." It assigns a weighting to each of the five ratings of very pessimistic, pessimistic, neutral, optimistic and very optimistic and then computes a weighted tracking number.

The CEI is based on the question: "Please indicate whether you expect your business to expand or contract over the next 12 months." It assigns a weighting to each of the five ratings of contract a lot, contract a little, stay the same, expand a little and expand a lot and also computes a weighted tracking number.

Both indices are considered positive at rating above .5 and negative below that level. In addition the direction of their movement will also provide insight into the direction of the economy.

Corporate Optimism and Corporate Expansion Indices

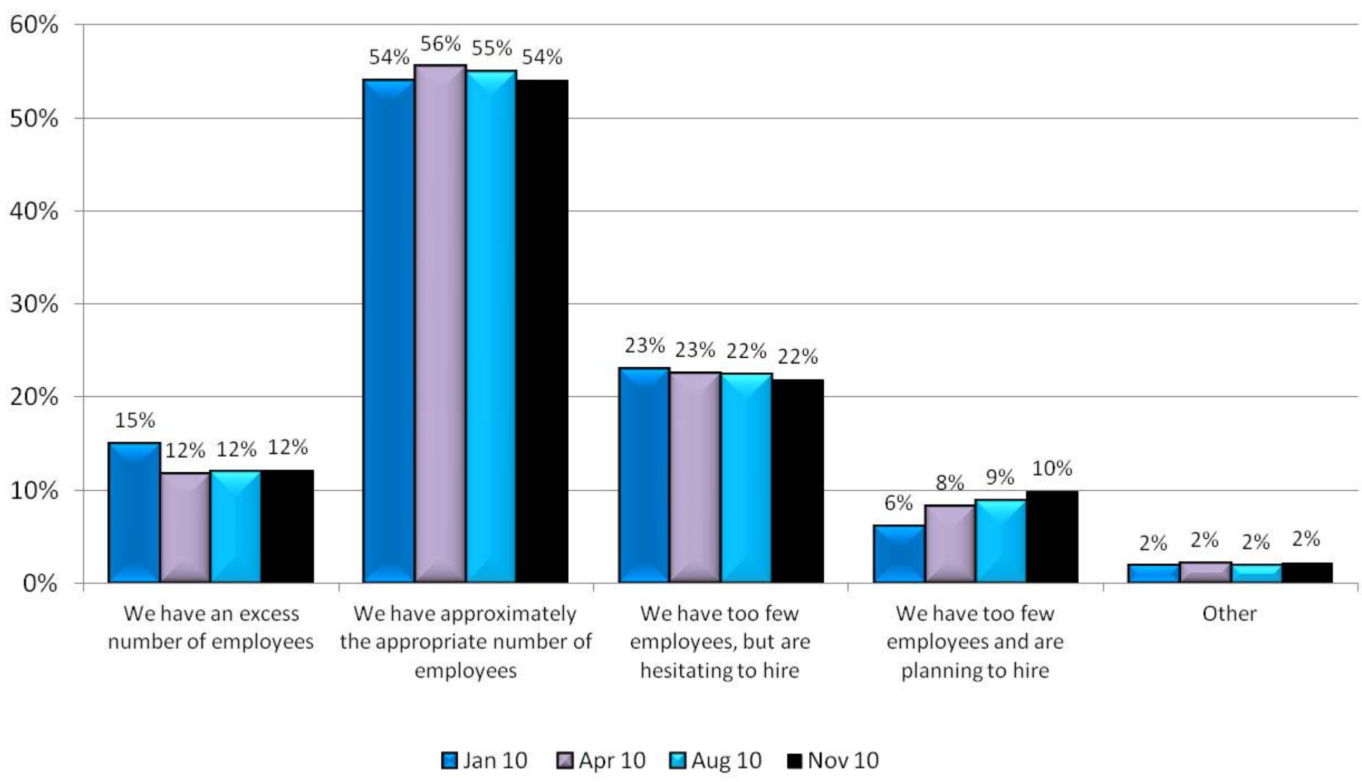


Employment Prospects

Expectations for hiring continue to remain soft and almost unchanged from last quarter. Thirty-four percent of respondents, the same as last quarter, said their companies will increase their headcounts over the next 12 months, while 48% (up 3% from last quarter) are planning to keep headcount the same, and 19% said they expect to reduce headcount in the next 12 months. The largest businesses are both most likely to expect to increase headcount and to reduce headcount with 39% expecting increases and 23% expecting decreases. The smallest businesses were most likely to expect staffing to remain unchanged with 54% of respondents answering that they expected no change.

For the fourth straight quarter, responses to a question which asked the CPA executives to compare staffing levels with their needs remained almost unchanged. The majority of respondents (54%) indicated that they believe they have the appropriate number of employees for their needs while 12% continue to believe they have too few and 32% indicating they more employees are needed. However only 1/3 (10%) of those needing employees are planning to hire, with the remainder (22%) expressing reluctance to hire.

Staffing Relative to Needs



The survey indicates that hiring will remain slow and cautious. When asked when they expected their staffing to return to pre-recession levels 53% still expect that it will take more than 12 months. Another 32% don't expect that it will happen in the foreseeable future. About a third of respondents said that they do not expect their staffing to return to pre-recession levels in the foreseeable future. Meanwhile 36% indicated that either their employment did not decline or has already returned to pre-recession levels.

Top Challenges for Organizations

The top challenges facing companies almost unchanged from the previous quarter. Customer demand remained at the top followed by employee healthcare costs and regulatory requirements. Access to capital/cost of capital held steady in the fourth spot. Despite the general lack of hiring expectations, availability of skilled personnel moved up another spot this quarter and is now in the number 6 spot.

Top Challenges for Organizations

Oct 09	January 10	April 10	Aug 10	Nov 10
Customer Demand	Customer Demand	Customer Demand	Customer Demand	Customer Demand
Employee health care costs	Employee health care costs	Employee health care costs	Employee health care costs	Employee health care costs
Access to capital/ cost of capital	Access to capital/ cost of capital	Regulatory requirements	Regulatory requirements	Regulatory requirements
Regulatory requirements	Regulatory requirements	Access to capital/ cost of capital	Access to capital/ cost of capital	Access to capital/ cost of capital
Collecting receivables	Collecting receivables	Materials & supplies costs	Collecting receivables	Materials & supplies costs
Liquidity	Liquidity	Collecting receivables	Materials & supplies costs	Availability of skilled personnel
Materials & supplies costs	Materials & supplies costs	Employee & benefits costs	Availability of skilled personnel	Collecting receivables
Avoiding layoffs	Avoiding layoffs	Liquidity	Liquidity	Liquidity
Employee & benefits costs	Employee & benefits costs	Availability of skilled personnel	Employee & benefits costs	Employee & benefits costs
Availability of skilled personnel	Availability of skilled personnel	Staff Turnover	Staff Turnover	Commodity Costs

Cash and Liquidity

This quarter the "survey within a survey" focused on cash and liquidity. While many recent news reports have focused on the "piles of cash" sitting on the sidelines, our survey indicates that this is not the case. Forty-four percent of the respondents said that their non-cyclical cash position was the same today as it was six months ago and a similar percentage (42%) felt that their organization's liquidity position was about right. Increases in cash position were modest for most of the 33% who said their cash had increased over the past 6 months – only 7% indicated that their cash position had increased by more than 25%. However about a third of respondents felt they had more than they need but 2/3's (22%) of those did indicate they were reluctant to deploy.

Twenty-seven percent of respondents indicated that they had plans to deploy cash in the next six months. The top deployment strategies were capital investment, expanding operations and reducing debt. Forty-seven percent of respondents indicated that they planned to raise capital in the next six months. Respondents were about equally split between using short-term borrowings (17%), long-term debt (14%) or private equity/debt (15%). Only 2% were planning a public stock offering.

Inadequate sales volume is seen as the largest risk to cash flow followed by collections/non-performing accounts.

Survey Background

The survey was conducted of AICPA Business & Industry members between November 9, 2010 and November 30, 2010 and had 1443 qualified respondents. Fifty percent of respondents were CFOs, 21% were Controllers, 14% were CEOs or Presidents, 7% were VPs, 4% were CAOs, CAEs or COOs and the remainder were Directors or Other. Seventy percent of respondents came from US privately owned entities, 12% from US public companies, 11% from government, education and not-for-profits and 5% from foreign owned companies. Eight percent came from organizations with annual revenues of 1 billion or more, 22% from organizations with $100 million to under $1 billion in annual revenues, 46% from organizations with $10 million to $100 million and 24% from organizations with under $10 million in revenues.