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ACCOUNTING

Optimism Plummets Among Business Execs

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Business executives' optimism about the U.S. economy has fallen to its lowest level in more than three years, according to the first quarter [AICPA Economic Outlook Survey](#), which polls chief executive officers, chief financial officers, controllers and other certified public accountants in U.S. companies who hold executive and senior management accounting roles.

Some 28 percent of survey respondents identified themselves as “optimistic” or “very optimistic” about prospects for the U.S. economy over the next 12 months, down 17 percentage points from last quarter and 40 percentage points from a year ago. In comparison, 34 percent said they were “pessimistic” or “very pessimistic,” the highest ratio since the end of 2012. The rest were neutral.

Concerns about both the U.S. and global economy have led to sharply lower expectations for key performance indicators, the survey found. Profits are expected to grow less than one percent over the next 12 months, down from a projected two percent last quarter. Revenues are only expected to climb 1.7 percent in the coming year, less than half the rate anticipated a year ago.

“For the first time since early 2013, domestic economic conditions have replaced regulatory concerns as the top perceived challenge for business executives,” said Valerie Rainey, CPA, CGMA, senior vice president and chief financial officer of [CMA CGM](#) (America) and chair of the AICPA's Business & Industry Executive Committee. “Survey takers say they're worried about slow growth, stock market volatility, the impact of low oil and commodity prices and upheaval in the global economy.”

The AICPA survey is a forward-looking indicator that tracks hiring and business-related expectations for the next 12 months. As a point of comparison, the U.S. Department of Labor's February employment report, scheduled to be released tomorrow, looks back on the previous month's hiring trends.

The CPA Outlook Index—a comprehensive gauge of executive sentiment within the AICPA survey—fell six points in the first quarter to 63, the fifth consecutive drop from a post-recession high of 78 in the fourth quarter of 2014. The index is a composite of nine, equally weighted survey measures set on a scale of 0 to 100, with 50 considered neutral and greater numbers signifying positive sentiment. All categories of the index fell in the past quarter, and are down year-over-year, too.

Other key findings of the survey:

- **Renewed softness in hiring outlook.** Some 15 percent of business executives said their companies are looking to hire immediately, a drop of three percentage points from last quarter. Overall, 53 percent of respondents said their companies had the right amount of staffing, the same as last quarter. Projected headcount expansion has fallen to 0.5 percent for the coming year, down from a post-recession high of 2.1 percent in the fourth quarter of 2014.
- **Survey takers have dimmer view of their own companies' prospects.** Optimism about business executives' own organizations fell below 50 percent for first time since end of 2012. Some 44 percent now identify themselves as optimistic, down nine percentage points from a year ago.
- **Less robust expansion plans.** Some 52 percent of business executives said they expected their companies to expand in the next 12 months, the lowest amount since the end of 2012. For the largest companies – those with more than \$1 billion in annual revenue – expansion plans fell from 59 percent last quarter to 49 percent.
- **Different takes from different places.** Business executives in the West are most optimistic (55 percent) about their region, while those from the South are least optimistic (38 percent).
- **Volatile industry outlooks.** Construction is expected to have the brightest prospects in the coming year (with 59 percent of executives expressing optimism this quarter), followed by technology (53 percent) and real estate (52 percent). Optimism about finance and insurance continued its slide, however, and the category is now one of the lowest ranked sectors at 41 percent. The least optimistic sector, retail trade, saw a turnaround in the past quarter and now stands at 39 percent, up 11 percentage points from the end of 2015.
- **Deflation is a rising concern.** Some 22 percent of executives listed it as a potential issue, double the amount from last quarter. Inflation concerns, meanwhile, fell nine percentage points to 14 percent, quarter over quarter.

The first quarter AICPA Business and Industry Economic Outlook Survey was conducted Feb. 9-24, 2016, and included 540 qualified responses from CPAs who hold leadership positions, such as chief financial officer or controller, in their companies. The overall margin of error is less than 3 percentage points. A [copy of the report](#) can be found on aicpa.org.

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