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NEWS

79% of Business Execs Optimistic on U.S. Economy

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Business executives' optimism about the U.S. economy continues to soar but is tempered somewhat by growing inflation concerns, 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.

Seventy-nine percent of business executives said they were upbeat about prospects for the economy, eclipsing last quarter's post-Great Recession high of 74 percent. As a point of reference, optimism levels were as low as 28 percent in early 2016. Survey respondents' view of their own companies' outlook over the next 12 months also set a post-recession record, with 71 percent expressing optimism.

“Business executives are drawing a lot of confidence from current economic indicators, and cite federal tax reform and deregulation as two factors in their improved outlook over the next year,” said Arleen R. Thomas, CPA, CGMA, managing director of Americas Market, Global Offerings & CGMA Exam, Management Accounting for the Association of International Certified Professional Accountants. “At the same time, we’re seeing an uptick in concerns often associated with a hot economy, from talent pool issues to rising inflation fears.”

The increase in concern about inflation is particularly acute, with 49 percent of business executives saying they view it as more of a risk than deflation over the next six months. That's up from 27 percent last quarter; in the previous five years, it had never exceeded 38 percent. The main inflationary risk factors cited are – in order – labor costs, raw material costs and interest rate hikes.

On the job front, half of business executives say their companies have the right number of employees. Hiring plans continue to improve, however, with 27 percent of companies saying they plan to fill positions immediately (up two percentage points from last quarter) and another 14 percent (up one percentage point) indicating they have too few employees but are hesitant to hire. Finding the right candidates remains an issue, however: ‘availability of skilled personnel’ remains the No. 1 challenge for businesses for the third quarter in a row.

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

The CPA Outlook Index—a comprehensive gauge of executive sentiment within the AICPA survey— rose two points in the fourth quarter to 81, a post-recession high. 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.

Other key findings of the survey:

- Asked about their take on potential interest rate hikes over the next 12 months, three-in-four business executives said they had at least a slight concern. But only 10 percent viewed this as a “significant concern.”
- Asked to quantify the federal tax reform law’s impact on their earnings this year, half of our respondents, excluding those from the not-for-profit sector, expect it to have a positive impact, while 36 percent said they anticipate it will have no impact.
- Some 29 percent of companies said any tax savings from federal tax reform would go to increased capital spending. Seventeen percent said they would use savings to pay down debt, while almost 13 percent said they would hire more workers. Ten percent said they will issue a dividend to investors, and three percent plan to buy back stock. Another five percent expect to acquire or merge with another company.
- Most business executives (74 percent) said their companies hadn’t yet passed on tax savings to workers in the form of pay increases or benefit changes. Of those that have, 12 percent increased salaries or wages, and just under five percent offered a one-time bonus.
- The percentage of business executives who expect their company to expand in the coming year increased from 71 percent to 72 percent, a post-recession high.
- Revenue and profit expectations for the next 12 months have grown every quarter over the past year, and now stand at 5 percent and 4.4 percent, respectively.

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