SMALL BUSINESS

Business Execs Less Optimistic on Economy

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Business executives' outlook on the global economy slid sharply over the past year, amid concerns about trade conflict and other business impacts, 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.

A little more than a third (34 percent) of survey respondents say they are optimistic about prospects for the global economy over the next 12 months, compared to 40 percent last quarter and 71 percent a year ago. Optimism about the U.S. economy has also declined over the past year but remains unchanged from last quarter at 57 percent.

"Trade tensions, the cooling economy in China, the looming overhang of Brexit on the United Kingdom and European Union, a series of regional conflicts – all of these have contributed to a sense of uncertainty and pessimism about the global economy," said Ash Noah, CPA, CGMA, managing director of CGMA learning, education and development for the Association of International Certified Professional Accountants, the global organization that includes the American Institute of CPAs (AICPA) and the Chartered Institute of Management Accountants (CIMA). "On the other hand, we're seeing a bit more of a stable outlook for the U.S. economy this quarter."

Expectations for profit and revenue growth over the next 12 months edged back up after a sharp drop last quarter. Profit growth estimates increased to 3.6 percent from 3.4 percent last quarter (the lowest rate since the second quarter of 2017), while revenue growth expectations rose a tick to 4.4 percent from 4.3 percent. Both profit and revenue growth forecasts are well below those from a year ago.

Availability of skilled personnel remains the top challenge for businesses, a position it has occupied since the third quarter of 2017. The number of business executives who said their companies have too many employees edged up slightly in the quarter, from 6 percent to 8 percent. Overall, 48 percent of survey respondents said their companies currently have the right number of employees. Of the 41 percent who have too few employees, some 15 percent said they were reluctant to hire, while 26 percent said they planned to hire immediately.

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— remains unchanged from last quarter at 76. 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. The index stood at 81 points a year ago.

Other key findings of the survey:

- The percentage of U.S. executives who expressed optimism about their own company's prospects over the next 12 months fell from 68 percent to 65 percent, quarter over quarter.
- Survey respondents who said they expect their organizations to expand in the coming year also fell slightly, from 67 percent to 66 percent.
- Some 43 percent of business executives cited a global economic slowdown as their biggest concern regarding rising trade tensions, up from 36 percent who said the same in the third quarter of 2018, the last time the question was asked.
- Most U.S. business executives (71 percent) see a neutral impact to their company's bottom line from Brexit, but the percentage who see a negative impact rose to 16 percent from four percent in the second quarter last year, the last time the question was asked.
- After availability of skilled personnel, the No. 2 and No. 3 challenges cited for businesses were "domestic compensation" and "employee and benefit costs," respectively. The latter two flipped places in the past quarter.

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