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Will it be a tough year?

2011 VSCPA Economic Survey shows CPAs have increased pessimism about the economy

By Daniel D. Selby, CPA, Ph.D., and W. Darrell Walden, Ph.D.

While there may be some glimmers of hope about a turnaround to the U.S. economy, such as decreasing unemployment, Virginia CPAs aren't betting on a huge recovery in the next year.

The second annual VSCPA Economic Outlook Survey reveals Virginia CPAs are more pessimistic about the United States and Virginia economies than they were last year, but they are actually more optimistic about Virginia's economy compared to the United States as a whole. Likewise, VSCPA members continue to feel good about the economic outlook in Virginia relative to neighboring states.

While the current state of the U.S. economy drives this pessimism, Virginia was the first of 27 states to legally oppose the federal health care mandate. We speculate that VSCPA members' outlook differences between national and state economies can be attributed to Virginia's opposition to the federal health care law.

The Economic Outlook Survey was conducted at the end of 2011; the VSCPA received responses from 492 members (compared to 342 in the 2010 survey).

Figure 1 shows respondents' outlook for the U.S. economy for the subsequent year (2010 respondents provided their outlook for 2011; last year's respondents provided their outlook for 2012), demonstrating the increase in pessimism.

Six percent of 2010 respondents were "very pessimistic" and 41 percent were "somewhat pessimistic" of the U.S. economic outlook for 2011. In contrast, only 23 percent of the respondents were "somewhat optimistic" of the U.S. outlook for 2011.

The 2011 Survey shows increasing pessimism in members' outlook for 2012. The percentage of "very pessimistic" respondents of the U.S. economic outlook doubled from 6 to 12 percent. Also, fewer respondents gave neutral or optimistic responses.

MORE POSITIVE CLOSER TO HOME?

The news isn't necessarily better for the Commonwealth — VSCPA members still have a pessimistic view of Virginia's economy in 2012 (see Figure 2). But their outlook is still better than their predictions for the country as a whole.

For example, only 2 percent of respondents were "very pessimistic" of the outlook for Virginia in the 2010 survey, and that percentage doubled to 4 percent in the 2011 survey. While the pessimism is increasing, those percentages are still much lower than the "very pessimistic" percentages for the U.S. outlook.

And while the percent of respondents who were "somewhat optimistic" about Virginia's outlook for 2011 is very similar to the percentages provided in 2012, the "very optimistic" response for 2012 is triple that from the 2011 outlook — from 1 percent to 3 percent.

There is also some indication that Virginia CPAs are now surer about their economic predictions than last year. A much larger percentage of respondents chose to respond to the question on Virginia's outlook for 2012 than for 2011 — 92 percent and 76 percent, respectively. This may signal some shift among VSCPA members from uncertainty to certainty about the perceived outlook for Virginia between 2011 and 2012.

THE PRESSING ISSUES

In both the 2010 and 2011 surveys, Virginia CPAs identified health care costs as the top overall and business issues facing the Commonwealth.

Figure 3 demonstrates survey respondents' rankings of top overall issues in Virginia. Health care received 27 percent of the vote in 2010 and 29 percent in 2012. Government regulation, however, saw a major increase, with 16 percent citing it as the top overall issue facing Virginians in 2012 — an increase of 8 percent over the previous year.

The 3 percent who chose the “other” category specified items like housing, retirement, jobs and political climate.

Far and away, survey respondents identified health care costs as the major business issue, with 37 percent (see Figure 4). The lending environment clocked in a close second with 33 percent. In a demonstration of certainty, 94 percent of survey takers responded to this question in 2011, compared with only 71 percent in 2010.

VIRGINIA AGAINST THE REST

Overall, Virginia CPAs feel that the Commonwealth's business climate is excellent or good relative to neighboring states (Maryland, West Virginia, North Carolina, etc.). In another demonstration of increased certainty, a higher percentage of respondents chose to respond to this question for 2012 than for 2011 — 96 percent versus 77 percent, respectively.

Figure 5 shows that more respondents feel Virginia's business climate is excellent compared to the previous year (a jump from 9 percent to 20 percent). The “good” rating also saw an increase, from 52 to 61 percent. The results are very similar for 2011 and 2012 for the respondents' “fair” and “poor” ratings.

Why did Virginia CPAs feel positively about Virginia's outlook against neighboring states? None of those states is on the list of the 27 states that legally oppose health care. This fact, coupled with the respondents' consistent identification of health care costs as the top overall and business issue in Virginia, leads us to speculate that respondents may find solace in Virginia's opposition to the mandatory health care law

Respondents may feel more optimistic about the economic outlook for Virginia because they predict they will be exempt from the existing mandatory health care law.

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Figure 1: Virginia CPAs' Economic Outlook for the United States

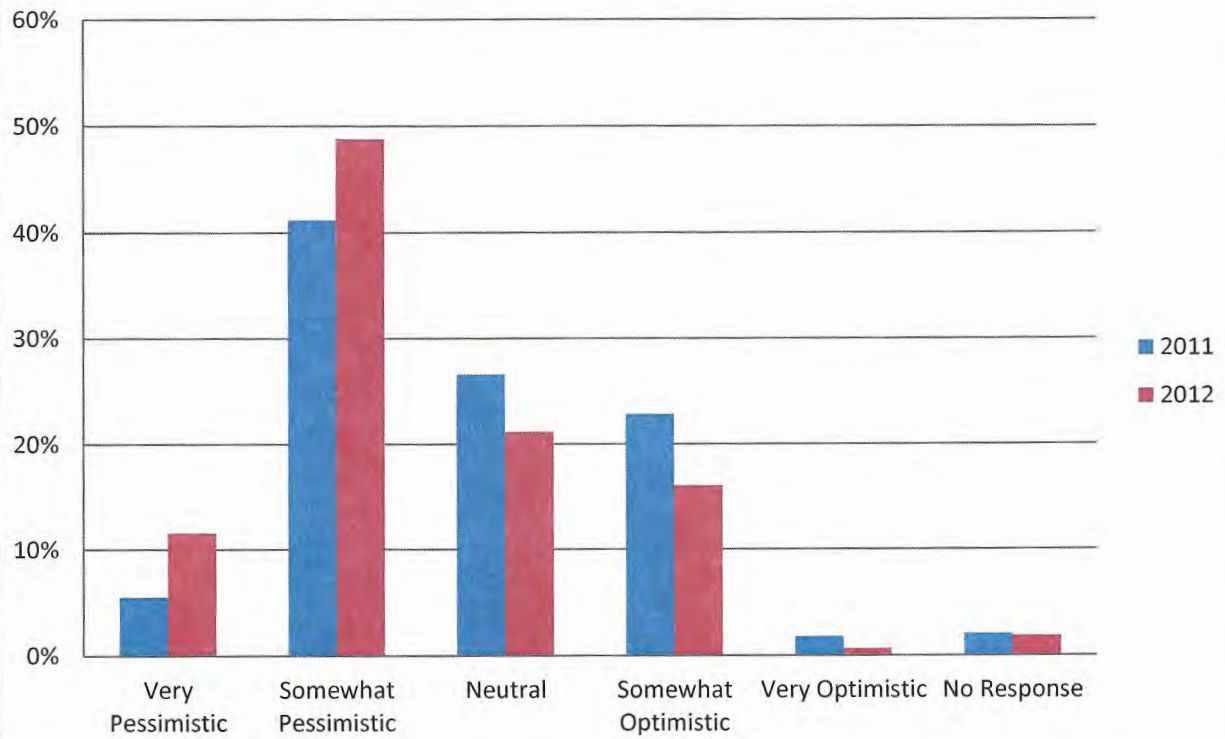


Figure 2: Virginia CPAs' Economic Outlook for Virginia

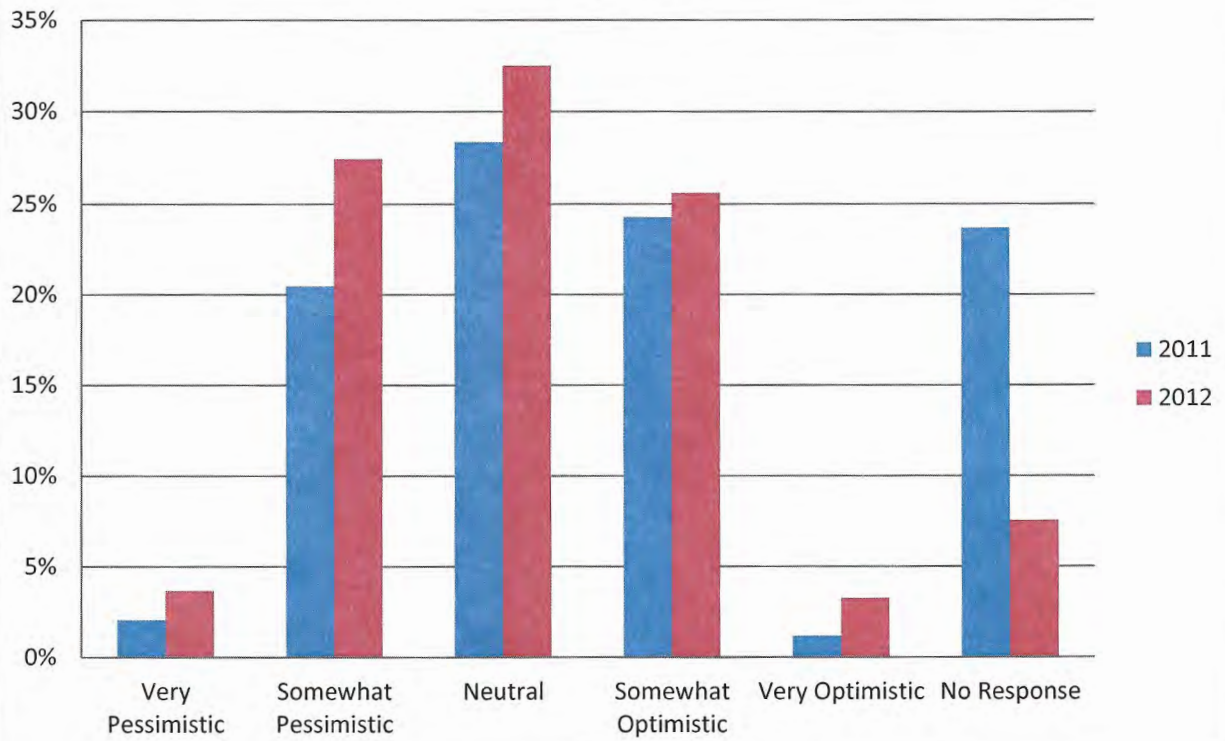


Figure 3: Virginia CPAs' Top Overall State Issues

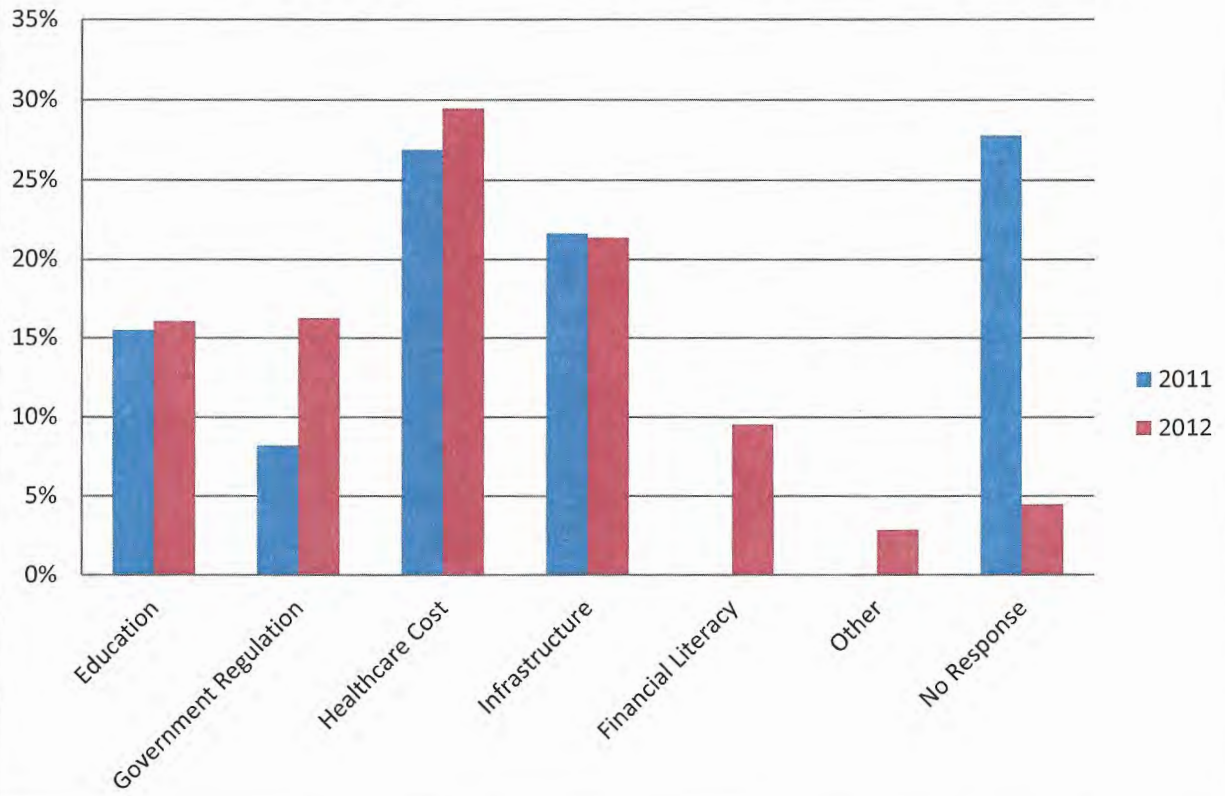


Figure 4: Virginia CPAs' Top Business Issues in the State

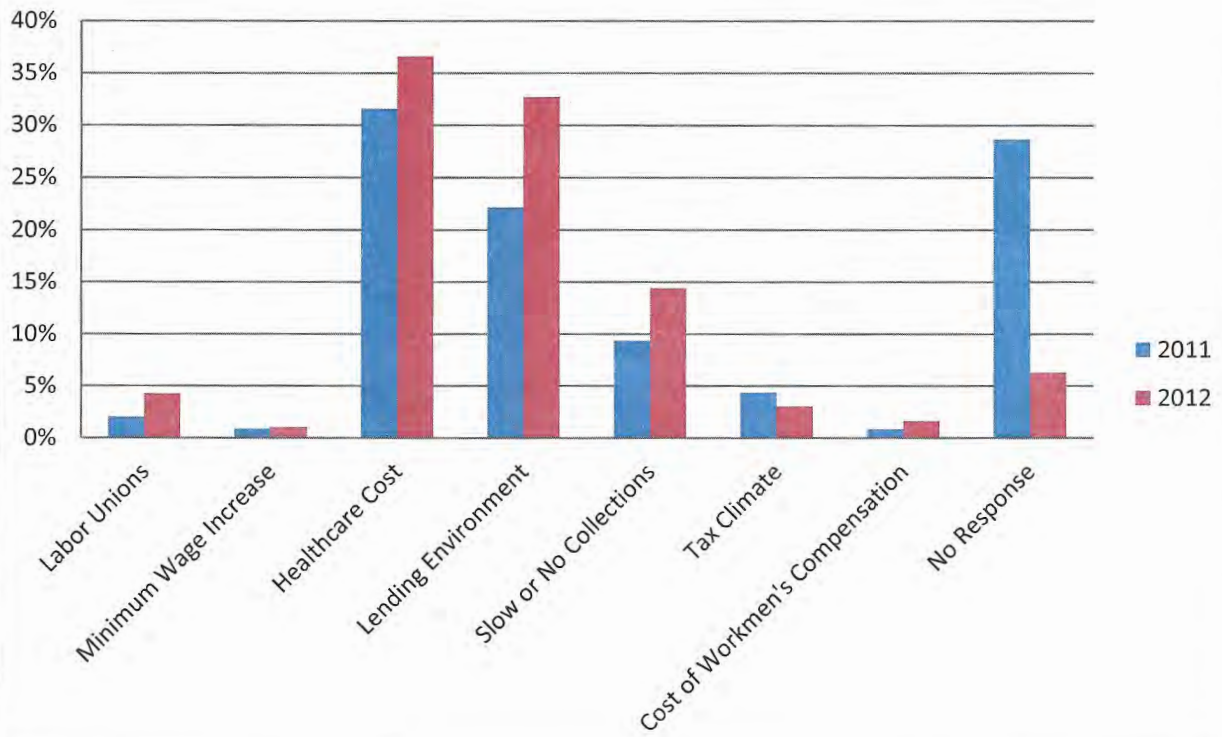


Figure 5: VSCPA Member Outlook on VA Business Climate Relative to Neighboring States

