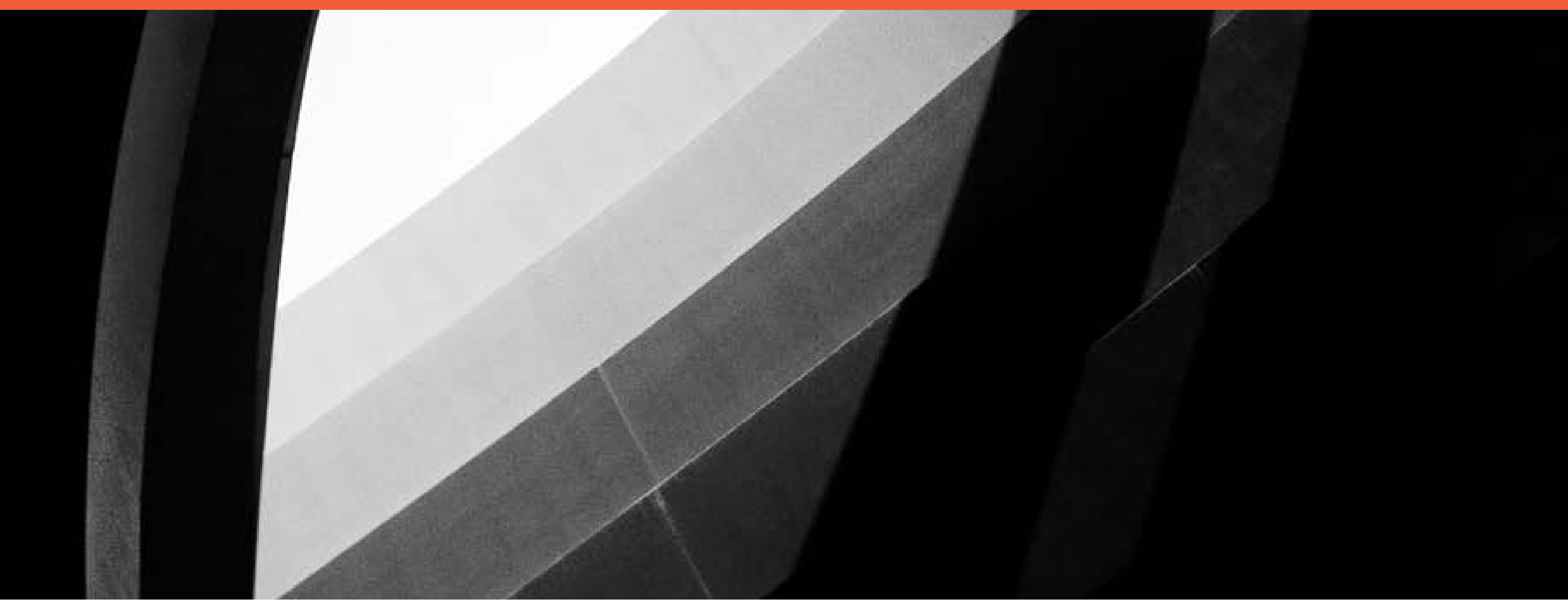
The Association of Accountants and Financial Professionals in Business

The global body for professional accountants

Global economic conditions survey report: Q2, 2013



ACCA AND **IMA**: GLOBAL BODIES EMPOWERING ACCOUNTANTS AND FINANCIAL PROFESSIONALS TO DRIVE BUSINESS PERFORMANCE

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 162,000 members and 426,000 students in 170 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 89 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

About IMA®

IMA® (Institute of Management Accountants), the association for accountants and financial professionals in business, is one of the largest and most respected associations focused exclusively on advancing the management accounting profession. Globally, IMA supports the profession through research, the CMA® (Certified Management Accountant) program, continuing education, networking, and advocacy of the highest ethical business practices. IMA has a global network of more than 65,000 members in 120 countries and 200 local chapter communities. IMA provides localised services through its offices in Montvale, N.J., USA; Zurich, Switzerland; Dubai, UAE; and Beijing, China.

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Global economic conditions survey report: Q2, 2013

About the survey

The Global Economic Conditions Survey (GECS), carried out jointly by ACCA and IMA, is the largest regular economic survey of accountants in the world, both in terms of the number of respondents and in terms of the number and scope of economic variables it monitors. Its main indices are good predictors of GDP growth in the OECD countries and daily trend deviations correlate well with the VIX or 'fear' index, which measures expected stock price volatility.

Fieldwork for the Q2, 2013 GECS was carried out between 14 May and 13 June 2013, and drew 1,833 responses from ACCA and IMA members around the world, including 172 from CFOs. This is the seventh survey jointly carried out by IMA and ACCA and the eighteenth since the series began in early 2009.

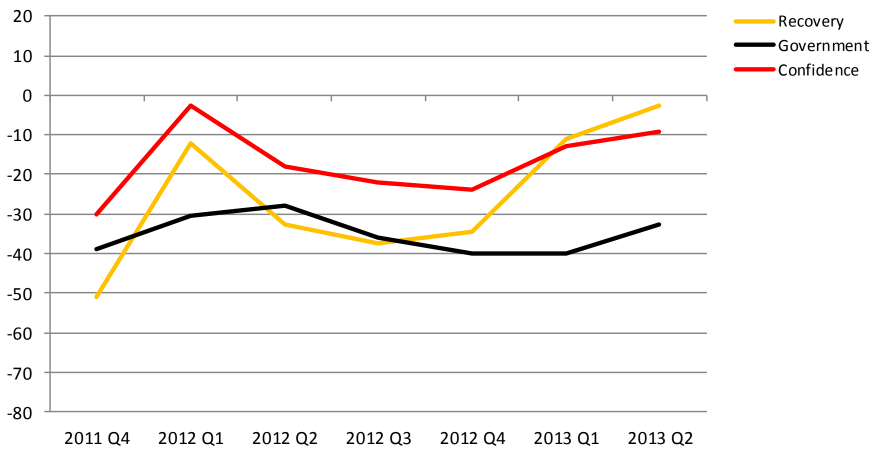
As always, we are grateful to all ACCA and IMA members who took the time to share their insights. As finance professionals, they have front-row seats to the recovery, and their collective views can tell a more complete and more accurate story than economic indicators alone.

Global economic recovery in sight for first the first time in two years

Early 2013 saw a substantial increase in both business confidence and optimism about the global economy, which was maintained during the second quarter of the year. Nearly half of the GECS sample (47%) felt that the state of the economy was improving or about to do so, up from 43% in 2013, while just under 50% were pessimistic, predicting deterioration or stagnation, down from 54% in the first quarter (Figure 1). This is the highest level of optimism about the national and global economies in two years, and the strongest year-on-year improvement in three years.[1]

A stream of good news about the global and national economies has nevertheless failed to produce a statistically significant increase in business confidence.[2] Instead, the GECS business confidence index merely inched higher, with 26% of respondents reporting increased confidence in the prospects of their organisations (up from 24% in the previous quarter) and 35% reporting a loss of confidence (down from 37%) (Figure 1).

Figure 1: Major GECS indices



1. These comparisons are based on responses from ACCA members only as there are no responses from IMA members prior to Q4 2011.

2. At the p=0.1 level

Dynamism increases as monetary easing unlocks supply of growth capital

Figure 2: Orders and cashflow indicators

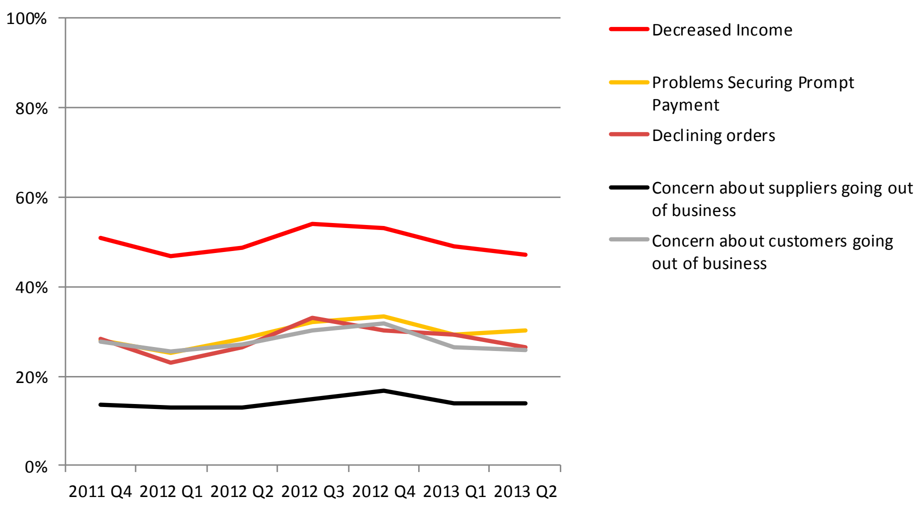
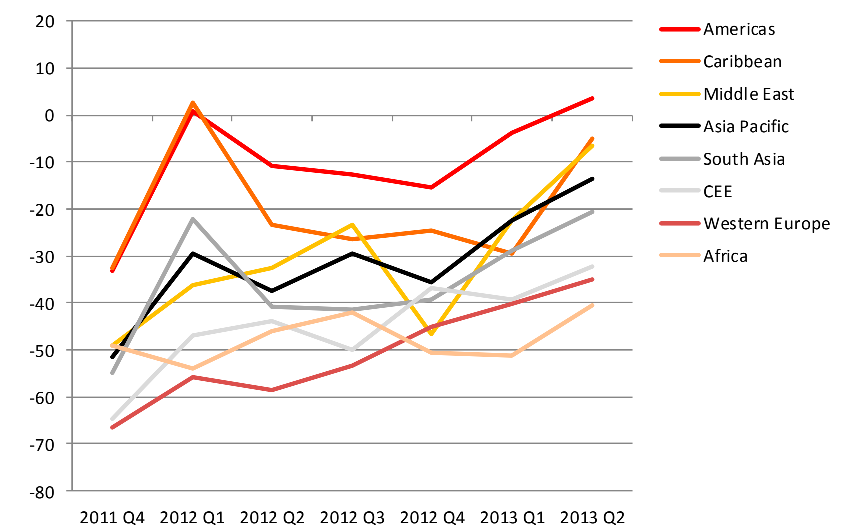


Figure 3: Access to capital for investment – regional indices



As noted in the Q1 2013 GECS report, the confidence gains of early 2013 were greater than what could be justified by fundamentals and bound to undergo some correction. This quarter's more modest confidence gains have brought business confidence back in line with improved fundamentals.

Fewer respondents are reporting falling revenues and declining orders, and, despite a marginal tightening of cashflow conditions, there has been little change in the share of respondents worried about customers or suppliers failing (Figure 2). Meanwhile, respondents report that more investment and business opportunities are available to them – particularly through investment in new markets, niche offerings, and high quality standards. Overall, over 26% of our sample reported that their organisations had access to value-added opportunities and weren't considering cost-cutting, a record high for the last two years.

But perhaps the most striking evidence of progress is the improved availability of growth capital globally (Figure 3). This is evident across regions and in most major ACCA and IMA markets, although mainland China and Ireland are notable exceptions. While many influences have combined to produce this effect, a global barrage of monetary stimulus is the most prominent.

As the Bank of International Settlements says:

'Central banks stepped up their expansionary monetary policies from an already accommodative stance. In April, the Bank of Japan (BOJ) outlined its new monetary easing policy framework, and in May the ECB lowered its policy rate to 0.5% while the Federal Reserve reassured markets of continued asset purchases and a low federal funds rate going forward.… Partly in response to monetary easing in the major currency areas, a number of central banks subsequently lowered their policy rates, including in Australia, Denmark, India, Israel, Korea, Mexico, Poland and Turkey.'[3]

On top of this, financials, especially in developed countries, have generally had a very good year to Q2 2013, with confidence levels comfortably above those of industry (Figure 4), and their profits have no doubt added to their willingness to lend and invest in the New Year.

As a result of these positive global trends, the marginal improvement in global business dynamism in early 2013 has now accelerated across all measures of investment, orders and employment; employment in particular is recovering particularly fast and is now stronger than at any point in the last two years (Figure 5). Moreover, the quality and sustainability of jobs may be improving: detailed analysis of the GECS data suggests that employment decisions in Q2 2013 were more sensitive to the prospect of increasing orders and to the financial health of customers than hires earlier in the year.

Figure 4: Business confidence – financial services and industry compared

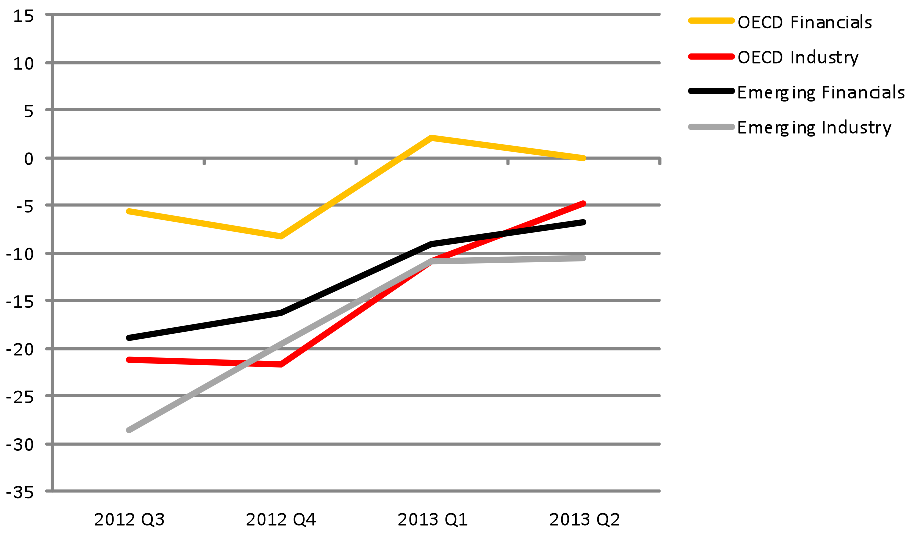
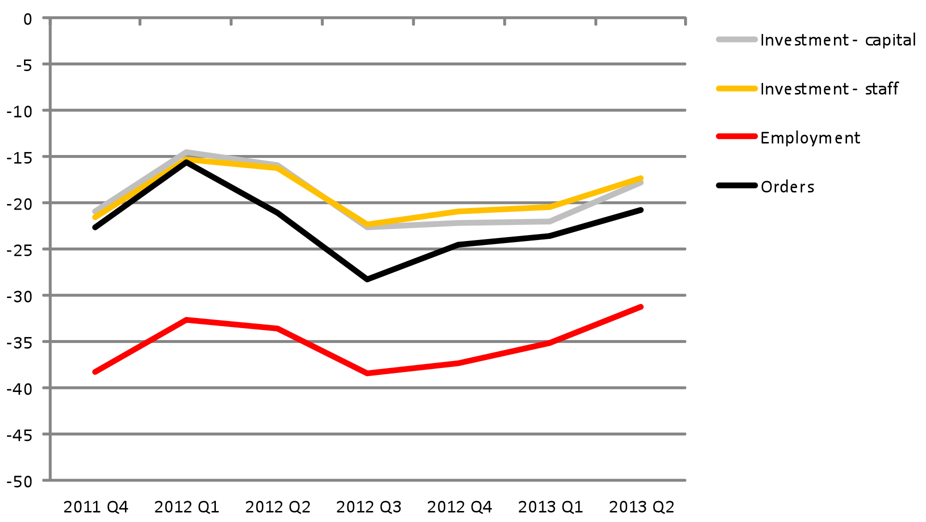


Figure 5: GECS dynamism indices



3. Bank of International Settlements (BIS), *BIS Quarterly Review*, June 2013, <http://www.bis.org/publ/qtrpdf/r_qt1306.pdf>.

Big spenders seen tightening fiscal policy as monetary policy eases

Figure 6: Medium-term government spending expectations – stimulus

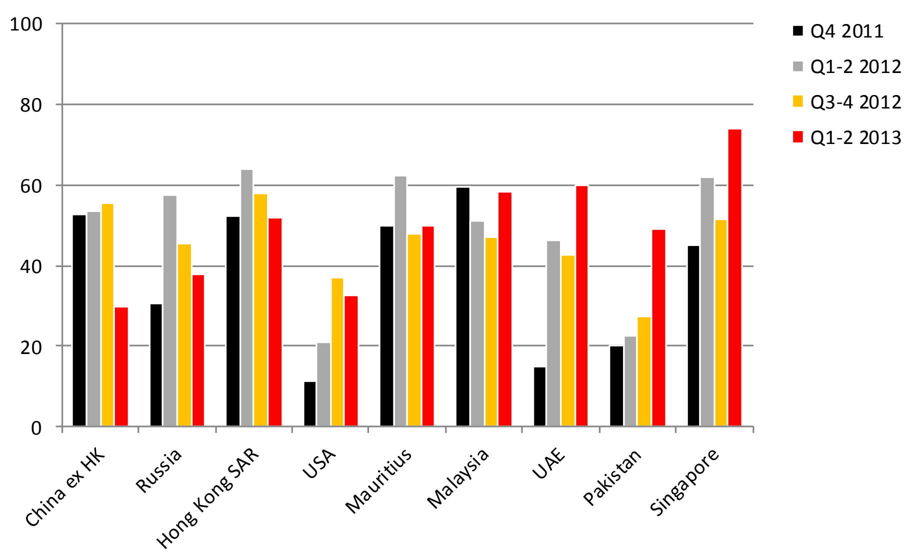
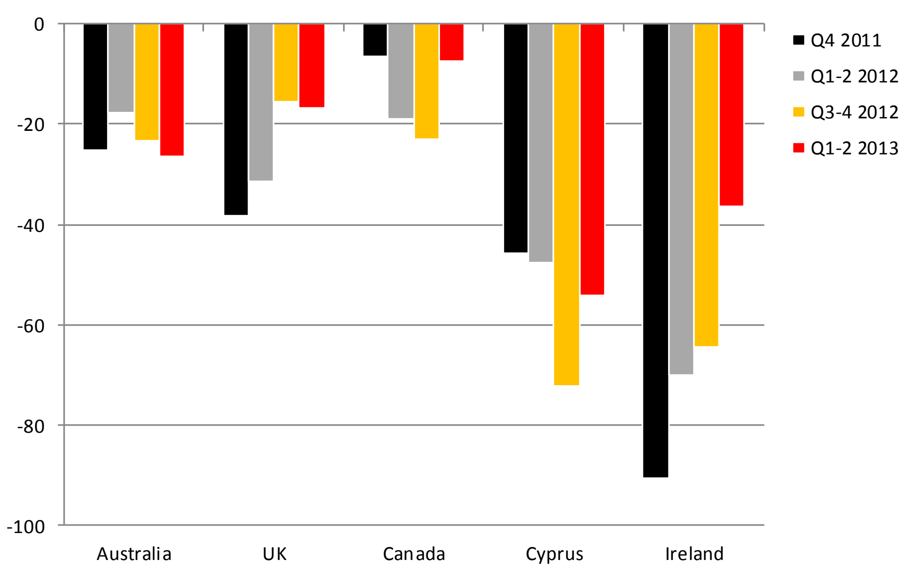


Figure 7: Medium term government spending expectations – austerity



While the impact of monetary policy on the GECS indices needs to be inferred indirectly, the GECS records members' expectations and preferences regarding government spending directly. In the first half of 2013, there was no uniform push in fiscal policy to match the monetary expansion discussed above, but some significant patterns have emerged.

Perhaps the most significant finding is the strong fall in expectations of spending growth among the former 'big spenders,' namely China, Russia, and the US (Figure 6). With these three countries alone representing about 37% of world GDP, even a small medium-term deceleration in government spending is likely to have a significant global impact – in this case, exerting a downward pressure on growth, investment and business confidence. In the Chinese mainland in particular, the shift in expectations is quite dramatic and follows a string of strong hints in this regard from policymakers, but also a steady fall in the rate of return of capital over the years. As a result, even official sources are revising growth expectations downwards.[4]

The 'big spenders' are, of course expected to continue to increase expenditures. On the other hand, fiscal contraction in countries such as Canada and Ireland is seen as having run its course in the medium-term, and even in hard-hit Cyprus the fear of unspecified measures has been replaced by certainty. Of the major ACCA and IMA markets, only the UK and Australia are seen as likely to tighten fiscal policy further in the medium term (Figure 7), and of those, only in Australia are respondents' attitudes shifting strongly in favour of more spending.

4. K. Mackenzie, 'When does a Chinese Growth Deceleration Become a Crisis?', *FT Alphaville*, 17 July 2013, <http://ftalphaville.ft.com/2013/07/17/1554582/when-does-a-chinese-growth-deceleration-become-a-crisis>.

Fundamentals: an overview of the regions and selected markets

RECOVERY MAY BE IN SIGHT, BUT NOT WITHIN REACH OF ALL

Global business sentiment in Q2 2013 may appear buoyant, but this level of optimism was not shared evenly across the regions (see Figure 8 and Figure 9). Genuine recovery was confined for the most part to North America and Africa, where both business confidence and optimism about the economy grew, albeit for different reasons, and employment increased.

Confidence and employment grew in a more fragile fashion in the Asia-Pacific region, as worrying news emerging from China raised concerns about the state of the recovery.

Even more volatile was the situation in the Middle East, western Europe and the Caribbean, where respondents felt more optimistic about the recovery than in the previous quarter, but less optimistic about the prospects of their own businesses. In the latter two regions this volatility translated into flattening or falling employment, although demand for skills and labour in the Middle East increased.

Finally, in south Asia and central and eastern Europe business confidence and optimism about the economy fell and job creation slowed, suggesting a renewed downturn may be a possibility.

Figure 8: Confidence indices across major regions

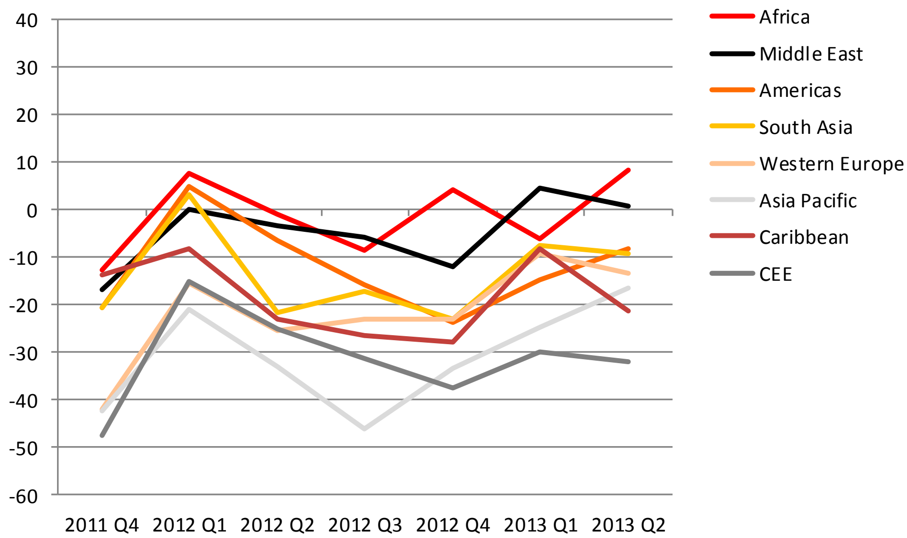


Figure 9: Business confidence in selected markets

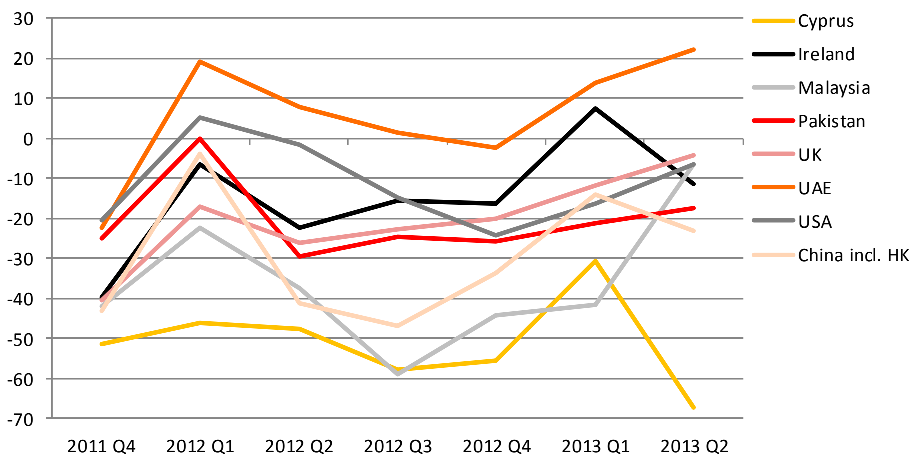
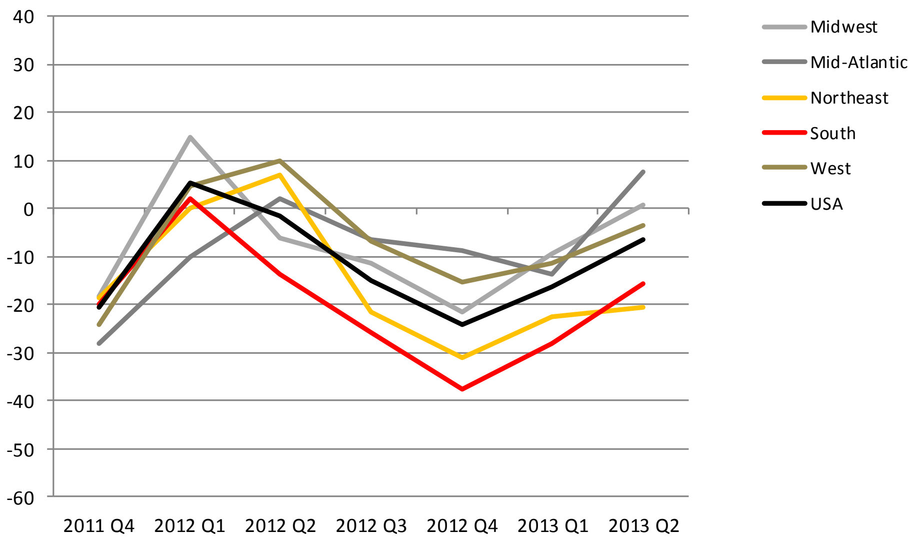


Figure 10: Business confidence in the US regions



THE AMERICAS

Business opportunities still scarce as a divided US economy emerges from a year of uncertainty

In the US, demand and cashflow conditions continued to improve for a second consecutive quarter, and access to growth capital also improved marginally, leading to a continued strong rebound in capacity building and a slight uptick in input prices.

Nevertheless, business opportunities have remained flat over the last nine months, rebounding very slowly from the uncertainty surrounding first the presidential election, then the prospect of a fiscal cliff, a credit rating downgrade and finally the Sequester. On the other hand, access to growth capital improved once again and external investment opportun ties proliferated, suggesting that a great amount of investment may be directed away from organic growth.

Overall, the US business confidence index rose in the second quarter of 2012, led by a strong rebound in the manufacturing and engineering sectors. About 25% of the US sample reported increased confidence in the prospects of their organisations, up from 23%, while 31% reported a loss of confidence, down from 39% in early 2013. Perceptions of the economy also improved, as the optimists (expecting improvement) rose to 55% of the US sample (from 50%) and the pessimists fell from 46% to 40%.

Increasingly, different US regions are diverging in terms of business confidence, and possibly performance. In fact, the south and north east continued to underperform the rest of the US sample in Q2 2013, completing a full year of divergence (See Figure 10).

Weakening demand holds Canada back, depressing business investment.[5]

In Canada, business opportunities have been falling throughout the past year, and this trend appeared to accelerate in the first half of 2013. Demand and cashflow conditions continued to tighten, albeit at a slightly slower pace, and access to growth capital appears to have become harder in the New Year. Despite these trends, capacity building has recovered slightly, still below last year's levels, input prices and FX volatility are still on the rise, and the global shift in monetary policy has contributed to a rise in perceived investment opportunities elsewhere. Overall, these findings suggest that businesses still have little incentive to retain earnings for organic growth.

In terms of business confidence, these trends have cancelled each other out so far, and the GECS confidence index for Canada has remained stable. In the first half of 2013, 33% of respondents in Canada reported a loss of confidence in the prospects of their organisations, down from 39% over the previous six months, but only 20% reported confidence gains, down from 25% in the second half of 2012.

Respondents' faith in the wider economy has been strengthened somewhat. About 46% are now optimistic, up from 42% in the previous six months, while the pessimists now make up 54% of the Canadian sample, down from 57% in the second half of 2012.

Faltering demand holds the Caribbean back, despite good investment conditions and increased optimism

In the Caribbean, business and investment opportunities proliferated at a reassuring rate, as they have for the past nine months; moreover, access to growth capital improved in the second quarter of 2013 and appears to be on a generally upward trend.

While this has prompted capacity building in gross terms, a large number of respondents are also reporting capacity losses – overall, the region's capital stock is being turned over while the headline figure remains flat. It is not certain why an improved trading environment isn't leading directly to a net rise in investment, but tightening demand and cashflow conditions as well as an uptick in inflation may be making businesses cautious about making long-term commitments.

Certainly, business confidence in the Caribbean has improved only marginally year-on-year, and has suffered a significant correction after a particularly bullish first quarter. While 24% of respondents reported increased confidence in the prospects of their organisations (up marginally from 23%), 45% reported a loss of confidence (up from 31%).

This is despite a substantial improvement in respondents' perception of the economic recovery. In Q2 2013, 52% (up from 45%) were optimistic, seeing economic conditions improving or about to do so. A steady 48% were pessimists.

AFRICA

Late 2012 was a volatile time for the wider region of Sub-Saharan Africa, as authorities battled to control inflation and 'hot money', partly caused by loose monetary policy elsewhere. While from a medium-term perspective inflation is still on the rise, and pressures rose incrementally in the second quarter of 2013, the worst challenges of late 2012 appear to have been overcome. As a result, business capacity building remained roughly stable over the first half of the year.

Demand and cashflow pressures eased significantly in Q2 2013, after rising unevenly for about a year. Access to both business and investment opportunities, as well as growth capital, improved both year-on-year and quarter on quarter, continuing an uneven eighteen-month trend.

As a result of these trends, Africa reclaimed its place as the most confident of the major regions. Less than a third (32%) of respondents in Africa are now reporting a loss of confidence, down from 40% in early 2013, and 41% report confidence gains, up from 34% in the previous quarter. Perceptions of the economic recovery in general have improved even more strongly: only 36% of the Africa sample are pessimistic, down from 46% in the previous quarter, while the optimists make up 60% of the sample, up from 51% in early 2013.

5. Due to small quarterly samples, all commentary on Australia, Canada, Cyprus, Mauritius, Russia, Scotland and Singapore is based on pooled six-month samples and hence covers Q4 2011, Q1–2 2012, Q3–4 2012 and Q1–2 2013.

Mauritius picks up speed in first half of 2013, though access to capital isn't keeping up

Mauritius saw the business environment become more benign overall in the early 2013. Business opportunities have been proliferating over the last twelve months, and the relative absence of investment opportunities outside of organic growth has most likely urged businesses to retain and re-invest earnings. Pressures on demand and cashflow have stabilised in the first half of 2013, after rising substantially in late 2012, inflation has eased, and the supply of growth capital is stable, tightening only marginally in early 2013. As a result of these trends, capacity building has ticked upwards over the last six months.

Moreover, business confidence is rising. Nearly three out of ten (29%) respondents in the first half of 2013 reported increased confidence in their organisations, up from a steady 18% over the preceding nine months. Another 40% reported a loss of confidence, down from an equally steady 46% in the previous six months.

Attitudes towards the economic recovery are also improving. About 41% of the sample for Q1 and Q2 2013 were optimistic, believing that conditions were improving or about to do so. This was up from 27% in the previous six months. The pessimists' share fell from 72% in late 2012 to 57% in the first half of 2012.

ASIA PACIFIC

China overcomes liquidity crunch, but Hong Kong remains troubled

The Chinese mainland has performed quite well over the past few months. Pressures on demand and cashflow fell for a fourth consecutive quarter, and fell faster than in previous quarters. Business opportunities increased, as indeed they have consistently over the past nine months. External investment opportunities fell, creating an incentive for businesses to retain and reinvest earnings to drive organic growth. Partly as a result of this, business capacity building soared, breaking a year-long slowdown, and inflation, although still down year-on-year, rose in the second quarter of 2013.

Yet in mainland China, business confidence fell in Q2 2013, with nearly half of all respondents reporting loss of confidence in their organisations (48%, up from 35% in Q1). Nearly two thirds were pessimistic about the state of the recovery (63% up from 51%). The main concern seems to be credit. Access to growth capital tightened sharply in the last quarter, consistent with a liquidity crunch among China's banks, especially smaller lenders.[6] Despite some fairly apocalyptic media reports, both the GECS survey data and official lending suggest that the impact on the economy of the Chinese mainland was significant but contained.

In Hong Kong, on the other hand, pressures on cashflow and demand have increased, following six months of relative improvement, and are back to the levels seen around a year ago. Business opportunities have fallen marginally, and show no signs of recovery. Inputs inflation has fallen marginally to the lowest level in a year.

On the other hand, access to growth capital has improved to levels unseen over the past eighteen months, and opportunities for external investment have fallen sharply, leading to a rise in retained earnings and thus business capacity.

This combination of trends has dented both business confidence and economic sentiment in Hong Kong. Half of all respondents (50%, up from 40%) reported a loss of confidence and 58% were pessimistic about the recovery (up from 56% in Q1)

Despite post-election euphoria, Malaysia's businesses are still not investing

The combination of an end to pre-election political uncertainty and a surge of infrastructure spending has boosted Malaysia's economy in the second quarter of 2013. Business opportunities have risen strongly, to their highest level in eighteen months, other investment opportunities are also on the rise, while demand and cashflow pressures have fallen for the second consecutive quarter.

As a result, business confidence grew for the third consecutive quarter and the recovery was seen as substantially more robust than previously. In Q2 2013, 37% of respondents (up from 32%) reported confidence gains. Only 35% were pessimistic about the state of the economy, down from 55% in the previous quarter.

6. W. Kazer, 'China Credit Weathers Cash Crunch', Wall Street Journal, 12 July 2013, <http://online.wsj.com/article/SB10001424127887324425204578601282323969090.html>.

These developments have, however, spurred inflation and FX volatility, which have surged again over the last six months and are now up year-on year. Perhaps most importantly, capacity building is still mostly driven by government spending – private enterprises have not responded to the improved trading environment with increased investment.

Australia's businesses struggling with weak demand, tightening supply of finance

In Australia, the business environment is showing persistent signs of deterioration. Both business opportunities and external investment opportunities have been falling for the last year and a half, and only the latter are showing signs of stabilising in early 2013. Demand and cashflow conditions have tightened steadily and inflation has fallen over the past twelve months. Finally, the loosening supply of growth capital which appeared to drive business capacity building up until late 2012, has now given way to more cautious policies – driving down both capital spending and personnel development. Australia is rare in this regard, bucking a nearly worldwide trend towards easier access to growth capital in the second quarter of 2013.

Despite these trends, respondents in Australia were slightly more optimistic about the global recovery. In the first half of 2013, 37% believed conditions were improving or about to do so, up from 34% in late 2012, while 56% expected deterioration or stagnation, down from 60%. This optimism is turn driving a marginal improvement in business confidence. While one third (33%) still reported a loss of confidence in the prospects of their organisations, this is down from 39% in the second half of 2012.

Investment rebounds in Singapore as demand shows signs of recovery

Pressures on demand and cashflow eased in the first six months of 2013 compared to late 2012, but such trends can be misleading in small, very open economies. Perhaps more convincingly, such pressures were also down marginally year-on-year, and input prices were up.

The combination of stronger demand and a steady improvement in access to growth capital over the last year has finally halted a year-long slide in business capacity building. This trend, however, is likely to reverse because external investment opportunities have been increasingly slowly but steadily over the last year and a half, outpacing opportunities for organic growth.

For now, business confidence has risen substantially in the first half of 2013 as fewer finance professionals feel exposed to the downside of the economy. While over half (52%) of all respondents reported a loss of confidence in the prospects of their organisations in the second half of 2012, only 38% did so in the last six months.

Additionally, respondents are becoming more optimistic about macroeconomic developments. 44% were optimistic in the first half of 2013, claiming that things were either getting better or about to do so. Only 19% had felt this way in the second half of 2012.

MIDDLE EAST

Business opportunities in the Middle East rose modestly in Q2 2013, and capacity building accelerated substantially. This increased focus on building capacity in the region was the result of fewer external investment opportunities and a substantial easing in the supply of growth capital. Also helpful was the fact that input inflation, though still high, has stabilised over the last six months.

Yet despite these positive developments, business confidence fell in the Middle East. One third of respondents (33%, up from 29%) reported loss of confidence in the prospects of their organisations, and rising cashflow and demand pressures were almost certainly part of the reason for this. Overall, however, respondents' faith in the global economic recovery has never been stronger in the last eighteen months. Only 38% were pessimistic in Q2 2013 (down from 43%), while the optimists made up 59% of the Middle East Sample, up from 54%.

Easy money and focus on organic growth unlocks investment in the UAE

The supply of growth capital in the Emirates has been loosening steadily over the last 12 months, and businesses here are currently enjoying some of the best financing conditions in the world.

While this financing boost took about half a year to make a difference to investment trends, capacity building has since grown strongly, particularly in the second quarter of 2013. This is despite a small uptick in input inflation and slightly tighter demand and cashflow conditions.

Part of the reason for this increased dynamism is that a good deal of funding was previously re-directed to external investments rather than organic growth. Such options have been less forthcoming in the latest quarter, while organic business opportunities have ticked upwards in the latest quarter – ending six months of relative decline.

The result has been a significant rise in business confidence for the second consecutive quarter. 40% of the UAE sample reported increased confidence in the prospects of their organisations, up from 33% in the previous quarter. Only 18% reported a loss of confidence.

Despite rising confidence, faith in the global economy has fallen marginally, even though it's still higher in the UAE than any other major ACCA or IMA market. More than two thirds (68%) of the Emirates sample are optimistic about the recovery, down from 70% in Q1 2013.

WESTERN EUROPE

Renewed Irish credit crunch halts capacity building as demand bottoms out

Ireland saw a substantial improvement in trading conditions in Q2 2013, as pressures on demand and cashflow eased to levels unseen for at least two years. This trend, however, is more likely to reflect a bottoming out of demand than an actual improvement, and did not translate to more business opportunities (indeed these are down both quarter-on-quarter and year-on-year).

Meanwhile, the supply of growth capital tightened sharply, breaking a positive eighteen-month trend; opportunities to invest outside the business ticked upwards, and hence capacity building continued to fall at a rapid pace.

Irish business confidence suffered a significant correction in Q2, following the exuberance of the previous quarter. Over a third of respondents (35%, up from 24%) reported a loss of confidence in their organisations. Perhaps most importantly, perceptions of the recovery deteriorated sharply, with 70% of respondents being pessimistic (up from 52% in Q1). In both cases, it is the excessive optimism of the first quarter that is at fault; after all, the confidence and optimism indicators are still up year-on-year.

UK economy still lacks dynamism despite funding boost

Faith in Britain's economic recovery grew substantially in the second quarter of 2013, with 43% of respondents declaring themselves optimistic (up from 24% in Q1). Business confidence grew more modestly, with 26% of respondents reporting increased confidence in the prospects of their organisations, up from 20% previously.

It's not hard to see why. British businesses' access to growth capital has been improving, despite some variations, throughout the last eighteen months. This has also led to a slow improvement in capacity building levels, which only accelerated in the latest quarter. Moreover, businesses will have been encouraged by falling input price inflation and lower FX volatility.

Despite these positive developments, business opportunities increased only marginally as demand and cashflow conditions tightened both quarter-on-quarter and year-on-year in Q2 2013. Respondents also reported that investment opportunities other than through organic growth increased more rapidly, meaning that capacity building could soon fall again.

Scotland's economy regains momentum after difficult 2012

Respondents in Scotland have now reported two consecutive quarters of improving access to growth capital and falling input inflation, as well as a year-on year improvement in demand and cashflow conditions. Moreover, after falling throughout 2012, business opportunities rebounded in the first half of 2013.

The first result of this improvement in the business environment was a boost to business confidence in Scotland. In Q1–2 2013, 17% of respondents felt that conditions were improving or about to do so, up from 13% in the second half of 2012. The second result was a surge in capacity building in the first two quarters of 2013, further encouraged by a relative lack of alternative investment opportunities.

The marginal increase in business confidence owes much less to perceptions of the global economy. Of the respondents in Scotland, 41% were pessimistic about the recovery, predicting deterioration or stagnation in the near future, and this percentage was up from 38% in the second half of 2012.

Cyprus' businesses reconsider capacity needs as fear gives way to resignation

With the country's major banks first facing insolvency and then being restructured, shortages of growth capital have been persistent throughout the last 12 months, and the situation remained largely unchanged despite the bail-in of March 2013. Pressures on demand and cashflow increased in the second quarter, although they are still short of the levels seen in late 2012.

Consequently, and despite a promising recovery elsewhere in the world, business opportunities dwindled in the new year, and are now down substantially year-on-year, while external investment opportunities also fell marginally in the second quarter of 2013. Despite the lack of opportunities for investment of any kind, capacity building in Cyprus has bounced back. This is because, having divested both skills and capital heavily in the run-up to March 2013, businesses are now pausing for breath, leading to a temporary increase in capacity building.

Overall business confidence rebounded slightly in the first half of 2013, after a long period of uncertainty that was, in some ways, worse than the reality to come. More than two thirds of respondents (69%) reported a loss of confidence in the prospects of their organisations in the first half of 2013, up marginally from 67% in the second half of 2012. But 15% also reported confidence gains during this period, up from 10% in the second half of 2012.

But there are no illusions among respondents about the state of the economy overall. Over nine out of 10 (92%, up from 91%) saw deterioration or stagnation ahead in the first half of 2013. A steady 7% remained optimistic throughout the past twelve months.

CENTRAL AND EASTERN EUROPE

2012 was a difficult year for members in central and eastern Europe. Pressures on cashflow and demand increased throughout the year, and only started easing in early 2013. As of the second quarter of the year, they are still high but have at least stabilised. Business opportunities have also begun to recover in Q2 2013, but are still well below last-year's peak and follow six months of stagnation.

Hence, although access to growth capital has eased over the last year and a half, and was substantially improved year-on-year in Q2 2013, capacity building has been falling steadily over the same period. Meanwhile, input inflation has bounced back much more strongly than could be justified by the marginal improvement in trading conditions – though it is still low by global standards.

As a result, business confidence fell in the second quarter of 2013 and is also down year-on-year. Only 8% of respondents reported confidence gains, down from 15% in Q1. Faith in the recovery is also down, although it has recovered substantially from the lows of late 2012. 71% of respondents said they were pessimistic about the recovery, expecting deterioration or stagnation, down from 64% in early 2013.

Faltering demand and tightening credit limit Russia's growth in early 2013

Pressures on cashflow and demand have increased over the last six months, while persistently falling input inflation could also point to a weakness in demand. Business opportunities were flat in early 2013 and down significantly year-on-year, while other investment opportunities have also been falling steadily over the last year. These trends have combined with a tightening of the supply of growth capital in early 2013 to further reduce capacity building, which has in any case been falling for the past eighteen months.

As a result, business confidence fell sharply over the first half of 2013, with 47% reporting a loss of confidence in the prospects of their organisations, up from 32% in the second half of 2013. Perceptions of the global recovery, on the other hand, improved substantially: 36% of respondents were optimistic about where the global economy was going, up from 21% in the second half of 2012.

SOUTH ASIA

The region experienced challenging demand and cashflow conditions as well as a credit crunch in the year to Q4 2012, but has since started to recover, with access to growth capital gradually restored and demand stabilising in the latest quarter.

However, a lot of business dynamism has also been lost. Business opportunities in the region have never recovered from a significant fall in early 2012, and capacity building has been on a slow downward slope since roughly the same time, falling marginally in the last quarter.

Encouragingly, these trends appear to have nearly bottomed out in the second quarter of 2013. Moreover, the steady increase in inflation over the last eighteen months has ended, and inflationary pressures already appear to be down year-on-year.

While the exuberance of early 2013 could not last, faith in the recovery is still strong in south Asia, with 57% (down from 60%) of respondents believing that conditions are improving or about to do so. Gains in business confidence also persisted, with 32% of the sample reporting increased confidence in their organisations' economic prospects, up from 29% in Q1. On the other hand, 41% reported loss of confidence (up from 36%), bringing confidence down quarter-on-quarter.

Investment falters in Pakistan as demand and cashflow disappoint

In Pakistan, access to growth capital has been improving for about a year, a trend which only accelerated in the latest quarter. Yet despite this, opportunities for organic business growth fell for a second consecutive quarter and pressures on demand and cashflow increased marginally, while external investment opportunities proliferated. These developments led to a marginal fall in capacity building, which is now down substantially year-on-year, and possibly contributed to the end of a year-long trend of steady increases in input inflation.

Respondents in Pakistan, however, have felt a sea change over the last two quarters and are increasingly convinced that recovery is in sight. 57% believe that the economy is improving or about to do so, up from 39% one year earlier, and 54% in Q1. It is this conviction which is driving business confidence, despite mixed fundamentals. Business confidence rose in Q2 2013, with 28% reporting increased confidence in the prospects of their organisations, up from 23% in the first quarter of 2013.

Table 1: Detailed recovery index for selected markets

	Don't know	Getting worse	Bottom and will remain	Bottom and will improve	Getting better	Index
Total sample	3.6%	19.3%	30.3%	18.4%	28.5%	-2.7
OECD	3%	16%	34%	17%	29%	-3.9
Non-OECD	4%	24%	25%	20%	28%	-1.2
Americas	4%	15%	27%	16%	38%	12.1
Caribbean	0%	21%	26%	31%	21%	4.8
Middle East	3%	14%	24%	23%	37%	21.1
Asia Pacific	7%	28%	28%	12%	25%	-18.9
CEE	1%	33%	38%	11%	17%	-43.3
South Asia	2%	13%	28%	17%	40%	15.9
Western Europe	1%	22%	42%	20%	15%	-28.5
Africa	5%	18%	18%	30%	30%	23.8
Cyprus	2%	74%	20%	4%	0%	-89.1
China (incl HK)	4%	32%	28%	12%	24%	-24.4
Ireland	0%	15%	55%	21%	9%	-40.0
Malaysia	8%	23%	32%	15%	22%	-18.3
Pakistan	2%	11%	30%	24%	33%	15.2
UK	2%	15%	41%	21%	21%	-14.0
UAE	2%	10%	20%	34%	34%	38.0
USA	5%	14%	26%	15%	40%	14.8

Table 2: Detailed confidence index for selected markets

	Much less confident	Less confident	No change	More confident	Much more confident	Index
Total sample	9.7%	25.8%	38.5%	22.1%	3.9%	-9.3
OECD	8%	24%	44%	22%	3%	-7.8
Non-OECD	11%	29%	31%	23%	6%	-11.4
Americas	7%	25%	44%	21%	3%	-8.2
Caribbean	12%	33%	31%	21%	2%	-21.4
Middle East	11%	23%	33%	22%	12%	0.7
Asia Pacific	9%	32%	34%	22%	3%	-16.5
CEE	12%	27%	53%	8%	0%	-31.9
South Asia	11%	30%	27%	23%	9%	-9.1
Western Europe	14%	23%	40%	22%	2%	-13.3
Africa	7%	25%	27%	32%	8%	8.2
Cyprus	46%	33%	11%	11%	0%	-67.4
China (incl HK)	8%	40%	28%	24%	0%	-43.6
Ireland	9%	26%	41%	21%	3%	-11.3
Malaysia	7%	28%	37%	23%	5%	-6.7
Pakistan	15%	30%	26%	22%	7%	-17.4
UK	11%	19%	44%	24%	2%	-4.1
UAE	4%	14%	42%	26%	14%	22.0
USA	7%	25%	44%	22%	3%	-6.5

Views from the coalface

IMPRESSIONS AND COMMENTARY FROM SELECTED MARKETS

'[The] Federal Government Sequester [had the greatest impact on our business] as we have a lot of US Government Contracts. We had a reduction [in funding] although part came back, just three months later than expected. We made lay-offs due to the uncertainty.'
CFO, non-profit, US (Midwest)

'The JOBS [Jumpstart our Business Startups] Act created the 'emerging business' classification which made it easier for my company (and many other small companies) to go public. So far, 14 companies in the biotech arena went public this year.'
Assistant controller, small healthcare/pharma company, US (north east)

'Heavy equipment manufacturers have not projected an increase in their production schedules because of a decreasing demand for their products related to the downturn in agriculture, mining, transportation and construction industries.'
Senior manager, small privately owned engineering company, US (Midwest)

'Wireless infrastructure is on an all-out effort to build up. There is a major shortage of qualified labour for this sort of work.'
CFO, wireless telecom company, US (north east)

'Long-term orders are switching from [China] to other low cost countries; only short and urgent orders are placed by customers. [We're dealing with] RMB inflation against all currencies, [an] increase in minimum wages and no government support.'
Director, large manufacturer, China (Hong Kong)

'Government has issued policies [with a] negative impact for the automobile industry. Government is controlling over-capacity of production, so the company is [finding it] hard to get approval for our investment projects.'
Director, large car manufacturer, China (Beijing)

'[The amount of] money on [the] market is increasing quickly as the hot money inflow rises. Operating costs of the business, such as rental and staff cost, are increasing. The interest rate should be reduced.'
Accountant, medium-sized corporate, China (Shanghai)

'The economic growth rate in China is one of the lowest one in the last 5 years, which creates problems for the employment of university graduates. The number of graduates this year is the biggest in decades.'
Consultant, large financial, China (Guangdong)

'Devaluation of the pound has increased profits from overseas. The declining public sector has allowed our business to acquire cheap commercial property.'
Accountant, medium-sized corporate, UK (Yorkshire)

'Inflation [is combined with] increasing competition, as more competitors are either entering the market due to redundancies or taking effective pay cuts and competing on level of fees.'
Sole practitioner, UK (south west)

'Development of the pharmaceutical market in the Middle East and other developing nations has allowed us to move into and expand in these areas.'
Medium-sized pharmaceutical, UK (Scotland)

'The tightening of financing [brought about by] government regulations has reduced access to financing a lot and hence the regular functioning of businesses has been affected.'
Analyst, public energy company, UAE

'Government projects that were shelved are being re-announced. [There is an] increase in liquidity in the market/banking industry from foreign and GCC [Gulf Co-operation Council] investors'
Manager, large financial, UAE

'The emergence of new banks has created quite a furore in India. The existing banks have had to rejig their operational fronts, and the majority have gone back to basics where client service is given paramount importance. My organisation has steadily grown at 30% [year on year] for the last 53 or so quarters.'
Manager, large financial, India

'[There has been a] greater willingness by the financial institutions to deal with the unserviceable bank debt of clients. This has seen a greater involvement by our firm in working to agree restructuring of the debt.'
Director, small practice, Republic of Ireland

'As part of the Economic Transformation Plan, investment from local government resulted in more business opportunities created, and therefore a favourable impact on our organisation.'
Manager, large oil/gas company, Malaysia (central/peninsular region)

'I believe that a strong Singapore dollar versus the US dollar may have encouraged the US head office to relocate our jobs to Oklahoma. However, personally I am OK with this: a strong Singapore dollar means my fixed GBP payments become cheaper and I don't want to see [the kind of] inflation of household goods and utilities that I have experienced in the UK.'
Manager, large corporate, Singapore

'The change in Government after democratic elections impacted the capital markets, whose indices reaches new highs. It also impacted the volume of trades compared to the past four years, bringing about a significant increase to the revenues of my organisation.'
Internal auditor, capital markets, Pakistan (Karachi)

'My organization is in retail and distribution so the biggest impact was an increase in government taxation of our business segment (customs fees) and also the signing of an IMF agreement which has provided some stability in exchange rates.'
Finance analyst, medium-sized corporate, Jamaica

'High levels of liquidity have driven investment yields in local currency to historic lows that may be creating a bubble in government bonds.'
Chief risk officer, medium-sized financial, Trinidad & Tobago

'[We've seen a] refocusing of government attention on revamping the energy sector as a result of problems of irregular supply of electricity to homes and especially the industrial sector.'
Accountant, large financial, Ghana
'Major discoveries of oil and gas fields attracted more foreign companies and hence increased our audit portfolio.'
Supervisor, Big Four, Tanzania

'The devaluation and flotation of the local currency resulted in foreign currency being available to meet imports of raw materials and finished products to spur economic growth.'
Senior manager, large corporate, Malawi

Conclusions

This quarter's findings demonstrate vividly how the interplay between fiscal and monetary policy at the global level can influence business conditions on the ground, even for businesses that are not immediately affected by either of them.

In the second quarter of 2013, loose monetary policy has triggered a significant rise in business confidence almost across the range of markets covered here, and in some cases a genuine increase in business dynamism and investment. At the same time, and in the longer-term, fiscal policy is pulling in the opposite direction – big spenders such as the US, China, and Russia are reining in spending, while those countries engaged in fiscal contraction are not showing signs of adjusting policies.

In the recent past, monetary stimulus has tended to export inflation to emerging economies and commodity producing countries. It is doubtful that this scenario will play out again in the second half of the year, as a number of inflation hedges, most notably gold, are currently not pricing in such a prospect. Nevertheless, it is not impossible. Nor should anyone underestimate the knock-on effects of such rises on developed nations – for instance, rising input prices have played a substantial role in derailing the UK economy in 2010, possibly a greater one than fiscal contraction.[7]

On the other hand, fiscal contraction, or even a slowing of fiscal expansion in some cases, can definitely be a drag on growth, and tighter spending by surplus countries is likely to add to persistent global imbalances. Still, these are medium-term expectations and may take time to come true.

Looking to the immediate future, there is a great deal of positive news to share this quarter. The dramatic correction to business confidence level that we had predicted earlier in the year did not materialise. Instead, fundamentals improved faster than confidence and the global economy grew into respondents' expectations.

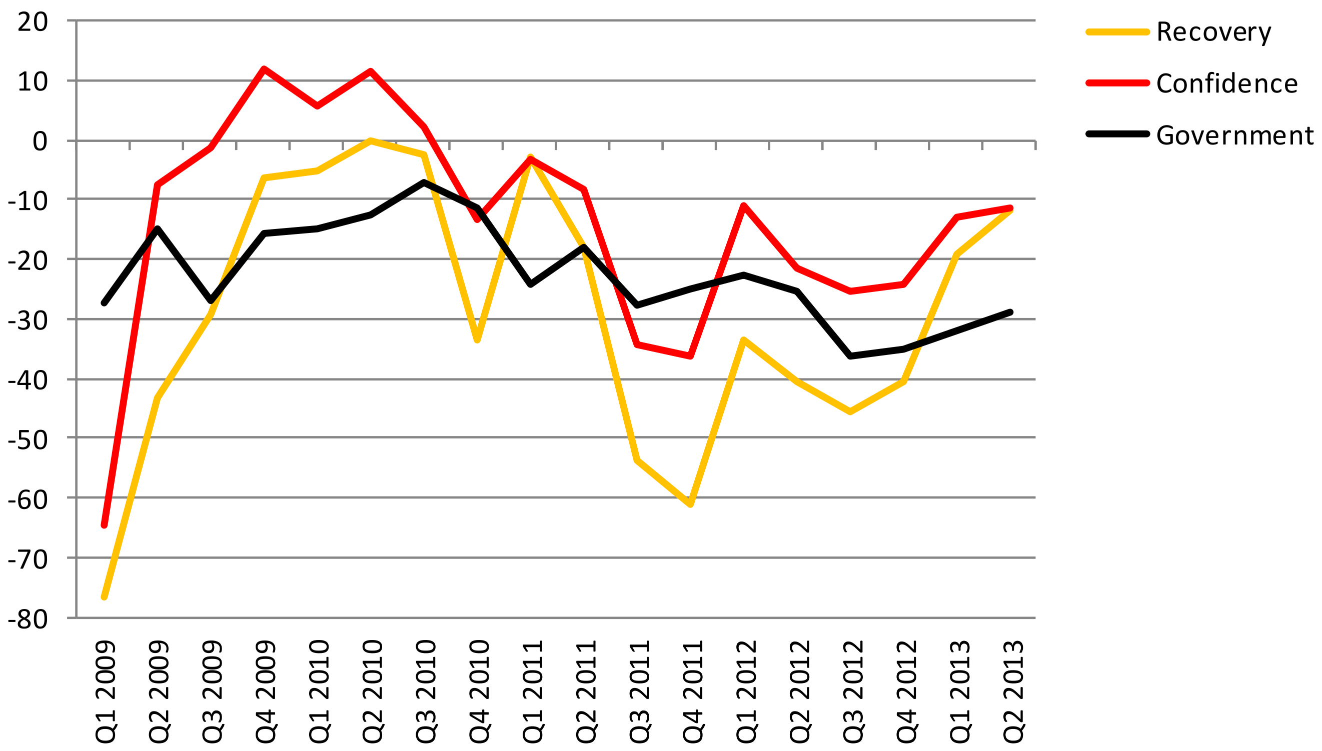
The US economy is starting to overcome the traumatic political impasses of the last year, although performance is not evenly spread around the country. The credit squeeze in China has dented confidence in that country's decelerating economy, but has not caused the kind of lasting damage that some commentators had feared it would. Monetary authorities in Africa have managed, more or less, to deal with a new wave of volatility and keep inflation under control. Political uncertainty is on the wane across our major markets.

For now, the second quarter of 2013 seems likely to prove a decisive turning point for the global economy – the beginning of a real recovery, for some of the global economy at least.

7. F. Coppola, 'What Derailed the UK Economy?' *Coppola Comment*, 4 July 2013, <http://coppolacomment.blogspot.co.uk/2013/07/what-derailed-uk-recovery.html>.

Appendix

Figure A1: The full series of GECS global index data (ACCA members only)



ACCA, IMA and the global economy

Global economic conditions continue to dominate business life. They are at the top of the world's political agenda, and updates and debates on economic issues are almost constantly the focus of media attention. While most national economies are now growing once again, it is far from clear how sustainable this growth is or how long it will be before a sense of normalcy returns to the global economy.

ACCA and IMA have been prominent voices on what the accounting profession can do to help turn the global economy around. Both bodies have published extensively on a range of topics from the regulation of financial markets or the prevention of fraud and money laundering, to fair value or the role of international accounting standards, to talent management and the development of an ethical business culture.

ACCA and IMA aim to demonstrate how an effective global accountancy profession contributes to sustainable global economic development; to champion the role of accountants as agents of value in business; and to support their members in challenging times. Both professional bodies believe that accountants add considerable value to business, and never more so than in the current environment.

Accountants are particularly instrumental in supporting the small business sector. Small and medium-sized enterprises (SMEs) account for more than half of the world's private sector output and about two thirds of all employment. Both ACCA and IMA focus much of their research and advocacy efforts on articulating the benefits to SMEs of solid financial management and reliable financial information.

WHERE NEXT?

As countries around the world once again consider strategies to promote stability and stimulate growth, the interconnectedness of our economies, and how they are managed and regulated, is now firmly in the spotlight. The development of the global accountancy profession has benefited from, and in turn contributed greatly to, the development of this interconnected global economy. The fortunes of the two are tied. ACCA and IMA will, therefore, continue to consider the challenges ahead for the global economy, and focus on equipping professional accountants for the uncertain future.

To find out more visit

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