ACCA Think Ahead

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The Association of Accountants and Financial Professionals in Business

Global economic conditions survey report: Q3, 2019

About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering 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.

ACCA supports its **219,000** members and **527,000** students (including affiliates) in **179** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **110** offices and centres and **7,571** Approved Employers worldwide, and **328** approved learning providers who provide high standards of learning and development.

Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA has introduced major innovations to its flagship qualification to ensure its members and future members continue to be the most valued, up to date and sought-after accountancy professionals globally.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability.

More information is here: www.accaglobal.com

About IMA® (Institute of Management Accountants)

IMA®, named the 2017 and 2018 Professional Body of the Year by *The Accountant/International Accounting Bulletin*, 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) and CSCA® (Certified in Strategy and Competitive Analysis) programs, continuing education, networking and advocacy of the highest ethical business practices. IMA has a global network of more than **125,000** members in **150** countries and **300** professional and student chapters. Headquartered in Montvale, N.J., USA, IMA provides localized services through its four global regions: The Americas, Asia/Pacific, Europe, and Middle East/India.

For more information about IMA, please visit: www.imanet.org

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Introduction

The Global Economic Conditions Survey (GECS) is the largest regular economic survey of accountants in the world.

The Global Economic Conditions Survey (GECS), carried out jointly by ACCA (the Association of Chartered Certified Accountants) and IMA (the Institute of Management Accountants), is the largest regular economic survey of accountants around the world, in terms of both the number of respondents and the range of economic variables it monitors.

Its main indices are good predictors of GDP growth in themed countries and its daily trend deviations correlate well with the VIX, or 'fear' index, which measures expected stock price volatility.

Fieldwork for the Q3 2019 survey took place between 30th August and 13th September 2019 and attracted 1128 responses from ACCA and IMA members, including over 100 CFOs.

ACCA and IMA would like to thank all members who took the time to respond to the survey. It is their first-hand insights into the fortunes of companies around the world that make GECS a trusted barometer for the global economy.

Executive summary

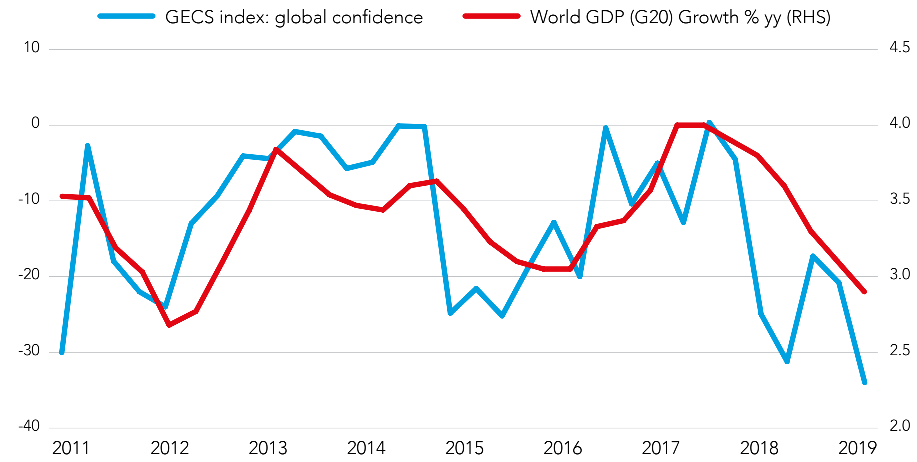
Confidence across regions converged at low levels this quarter and the global index is at an eight-year low.

The GECS global confidence index fell to its lowest level in almost eight years in Q3. But the global orders index, which tends to be less volatile than confidence, was unchanged over the quarter, remaining at the lowest level since Q3 2016. Both employment and investment intentions declined at the global level this quarter adding to the slowdown message. Along with other indicators, the message from the GECS is one of an intensifying global slowdown into 2020. Risks are on the downside but a global recession is still unlikely, given the strength of the jobs market in many developed economies.

Meanwhile, concern about rising operating costs fell for the fifth quarter in a row in Q3 to 42%, the lowest level in two and a half years. An easing of inflationary pressures is to be expected during a period of below-trend economic growth. Inflation in developed economies is now below 2%, creating room for the monetary ease already enacted by the US Federal Reserve and European Central Bank (ECB). Meanwhile, the possibility that their suppliers could go out of business was a worry for just 11% of respondents, up slightly from 9% in the previous survey. The proportion concerned about customers going out of business increased to 24%, up from 17% last time. While too early to call a trend, this is nevertheless the highest level of concern in five years.

Looking at the regional breakdown of confidence, the biggest falls this quarter were in Asia Pacific and South Asia. Both China and India are experiencing slowing growth that is undermining confidence in their respective regions. In the US and UK, confidence did increase slightly. But both countries saw big falls in confidence in Q2 and confidence is at low levels. All the key regions recorded a negative

Chart 1: Global confidence falls to a record low, risks to the world economy increase



Source: ACCA/IMA, OECD

42%

of survey respondents cited concern about rising operating costs, the lowest level in two and a half years

Chart 2: Global cost concerns easing

Source: ACCA/IMA

confidence score (i.e. there were more people pessimistic about the outlook than optimistic), with the lowest score being recorded in Asia Pacific and Western Europe and the least pessimistic) part of the global economy was South Asia and the Middle East. Nonetheless, there was a trend of convergence in confidence levels in this survey with the gap between the most and least confident region narrowing significantly.

The regional pattern for orders, which are closer to real economic activity than sentiment driven confidence, is broadly similar to that for confidence. South Asia and Asia Pacific, along with Africa, had the biggest fall in orders, while the US and UK experienced more modest declines. The Middle East and Central and Eastern Europe were the only regions to see an increase in orders.

On current trends it is possible that China's GDP growth will fail to reach the official target range of 6% to 6.5% this year.

The Chinese economy continues to exhibit weakness, according to the latest reliable monthly indicators. Industrial production slowed to a 12-monthly growth rate of just 4.4%in August, the weakest rate in 17 years. Exports are falling, down 1% from a year ago in August as the trade war with the US takes its toll. In recent quarters the GECS China series has pointed to a weakening picture with falling confidence and orders. On current trends it is possible that China's GDP growth will fail to reach the official target range of 6% to 6.5% this year. The monetary authorities have reduced banks' reserve requirements in an attempt to boost money creation. Further easing measures are likely in coming months.

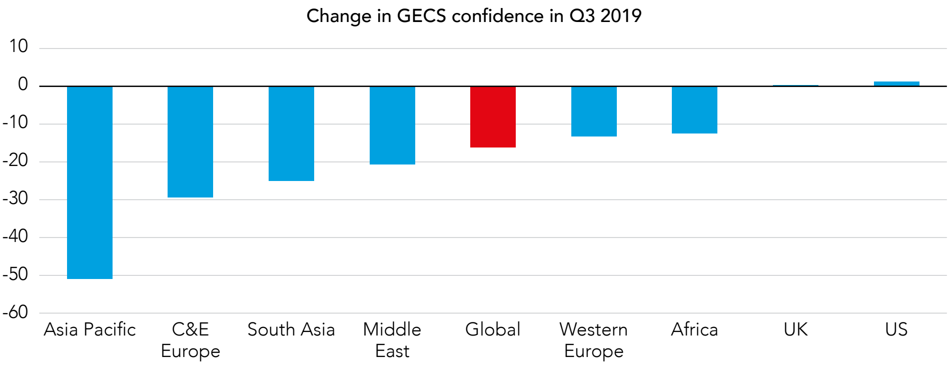
Confidence in the UK remains at low levels, although it was little changed in the latest survey. Continued uncertainty about Brexit is holding back business investment. But the GECS is consistent with moderate growth, supported overall by consumer spending. UK growth this year will be slightly above 1% but there will be no recession despite the quarterly contraction in Q2. Consumer spending is likely to be relatively resilient, boosted by rising real incomes.

In Western Europe as a whole, confidence fell in line with the global picture, while orders dipped and are at the lowest level since early 2016. The euro-zone economy is faltering, with Germany on the brink of a technical recession as exports fall. Other euro-zone economies are experiencing modest, domestic-led growth. The main positive factor in the region is that low inflation is generating steady real household income growth that is supporting consumption.

In the Middle East confidence fell to its lowest level in a year, while orders recovered. Oil prices declined slightly over the quarter (the survey finished just before the attack on the Saudi Arabian oil facilities on 14 September). Nevertheless, a deteriorating geo-political situation in the region may help explain the fall in confidence this quarter. Meanwhile, confidence in South Asia also fell, led by India, where the economy has lost considerable momentum in recent months.

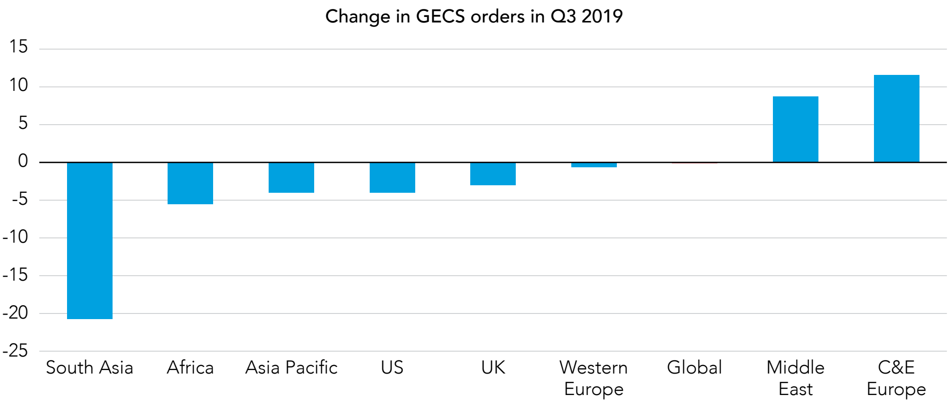
Growth in emerging markets (EMs), especially those heavily dependent on exports, is slowing. Global trade growth has slowed even more than global economic growth over the last couple of years, hurting many EMs. A positive development is the cuts in US interest rates. The Federal Reserve reduced rates twice in recent months in July and September by 25 bps each time – the latter taking place after the Q3 GECS survey had been conducted. Lower US interest rates reduce capital outflows from EMs and tend to ease downward pressure on their currencies. For those with exchange rates fixed to the US dollar, it also means interest rates are reduced in line with those in the US. The split between OECD and non-OECD countries gives a mixed picture in the Q3 GECS with non-OECD countries performing better than OECD ones in confidence but worse in new orders.

Chart 3: Confidence falls almost everywhere



Source: ACCA/IMA

Chart 4: Orders hold up better in US, fall further in South Asia



Source: ACCA/IMA

The US-China trade war is the major risk to the global economy at present. Its direct effects are relatively limited but the uncertainty it has created is undermining business confidence.

THE US-CHINA TRADE WAR – CAN IT TRIGGER A GLOBAL RECESSION?

There are several potential downside risks to the global economy at present, including a structural slowdown in China, the prospect of a no-deal Brexit, concerns about excessive corporate sector debt levels and the ever-present risk of a euro-zone crisis and geo-political risks in the Middle East. But the stand-out risk to the global economy according to analysts and economists is the trade war between the US and China. This began in May 2018 and has been on an erratic but escalating trend ever since. The current situation (early October) is that by the end of 2019 US tariffs will cover virtually all Chinese goods imports at rates of either 30% or 15%. Similarly, Chinese imports of US goods will have tariffs ranging from 5% to 25% applied.

So how much damage could a trade war do to the world economy? Could it be sufficient to push the global economy into recession? The short answer is no not by itself. But if other risks were to materialize, then the forces pushing towards a global recession would be considerable. The question then would be whether policy easing, which has begun already in many countries, would provide enough of a stimulus to maintain positive growth overall.

OECD estimates of the economic effects of the trade war on the US and China show a material but not dramatic negative impact. This is not surprising, given that both countries have huge domestic markets with economies that are not heavily export-dependent. For example US imports account for 15% of its GDP and of this 21% comes from China – so Chinese imports to the US are equivalent to just 3% of GDP. The counterpart to this, Chinese exports to the US are equivalent to approximately 4% of China's GDP in 2016. (In China this is a more recent development as its growth model had previously been geared towards exports.)

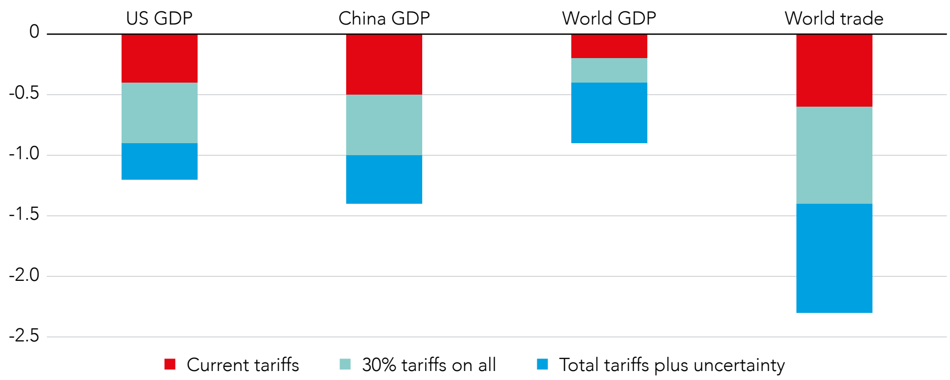
The main direct route by which tariffs affect economic growth is through the effect on prices – they are, after all, a tax. By raising prices tariffs act to boost inflation, reducing real incomes and spending. The effect of a tariff on imports may also be to protect domestic producers from overseas competition, allowing them to raise prices (and output) too. For example, there is some evidence that US steel producers have behaved in this way. In terms of the overall effect on an individual economy there may be a boost to domestic production as imports are reduced and the global impact would be negligible of course.

The chart below shows estimates of the effect of the trade war. The risks from the 25% (or 30%) US tariffs applied to a range of Chinese imports are greater than the 10% (or 15%) tariffs that have dominated since the trade war started in May 2018. The imposition of 10% tariffs, while not exactly helpful, is not at such a level to do serious damage – in many cases a 10% tariff can be absorbed by margins or offset by exchange rate fluctuations.

The US-China trade war could knock between 1% and 1.5% off both US and Chinese GDP growth spread over three years.

Chart 5: Trade war effects on GDP, trade

Impact on GDP and trade over three years, percent difference from baseline



Current tariffs are those in place as of 1st September 2019; 30% tariffs on all is 30% on all US (non-commodity) imports from China with reciprocal tariffs on China's US imports. Uncertainty is the effect of a 50bps incraese in investment risk premia in all countries.

Source: OECD/ACCA

But tariffs at 25% or even 30% will have a significant impact – tariffs at this level are highly unlikely to be absorbed elsewhere. Moreover, these tariffs are to be implemented mainly on consumer goods, such as toys and electronics. This implies a more immediate and significant upward influence on consumer prices and so a rapid impact on real incomes and spending. Anticipation of reduced future demand may also result in weaker investment spending.

According to the OECD, these "direct" effects are estimated to reduce growth in the US by a total of 0.9 percentage points, spread over three years. The effect on the growth rate in China is slightly greater at 1%, but, of course, the Chinese economy has a trend growth rate higher than that of the US – even after the recent structural slowdown. The key point here is that in neither case is the impact sufficient to bring the economy close to recession, given their current projected growth rates.

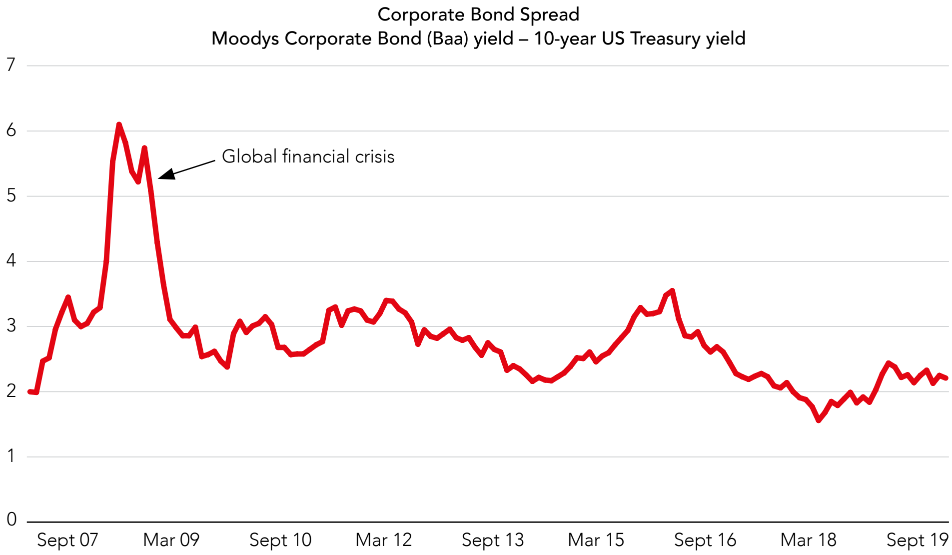
The uncertainty factor

But that is not the end of the story. The trade war is shrouded in uncertainty as to its ultimate resolution and there are increasing fears of an escalation. In addition, there is the issue of technology transfer between the US and China, encapsulated in the controversy surrounding Huawei. More recently, the designation of China by the US as a currency manipulator (triggered by the fall in the Chinese Yuan to below seven to the US dollar) has added a further element to US-China tensions. Together, these factors could potentially undermine business confidence, tighten financial conditions and provide a major additional transmission mechanism for a more broad-based negative effect on the global economy. So far, financial conditions have not tightened to any significant degree: for example, corporate bond spreads (the excess of corporate borrowing costs over the risk-free, government borrowing interest rate) remain at low levels (see chart). Stock markets also do not suggest a dominant trade war effect. True, equity markets have responded in the short term to 'news' on trade war developments. But by early October the US market (S&P 500) had gone up around 11% since early 2018 as trade tensions increased. This suggests that factors other than trade tensions are more important to the US equity market. But business confidence has turned down in many countries in recent months and the US-China trade war has undoubtedly been an influence on this, along with other elevated risk factors.

A slowdown in global trade is clearly taking place, although it would be wrong to conclude that this is due entirely to the effect of trade wars. Global trade was slowing before the outbreak of hostilities in the US-China trade war last year. The manufacturing cycle has turned down with falling production across many developed countries. Car production is part of this story as the sector is undergoing fundamental structural change and suffering from weak global demand.

A slowdown in global trade is clearly taking place, although it would be wrong to conclude that this is due entirely to the effect of trade wars.

Chart 6: No sign yet of stress in corporate bond markets



Source: Federal Reserve Bank of St Louis Economic Databank (FRED)

Of course the trade war is not exclusively a US-China affair – there are (so far) bit parts for the EU, Canada and Mexico. The most recent example of this is the imposition of US tariffs on $7.5 billion of imports from the EU as a result of a WTO decision on the long-running Airbus/Boeing illegal subsidy dispute. But China is the only Asian country that is subject to, or threatened by, tariffs on its exports to the US. Because of this there is increasing evidence of trade diversion – that is, other Asian economies are boosting exports to the US to replace those from China. Chart 7 illustrates this, showing the growth rate of exports to the US from China and from an aggregate of other Asian countries.

The recent divergence in these growth rates, after a long period of fairly close correlation, illustrates this trade diversion as Chinese exports contract and those from other Asian economies increase. Vietnam has been a particular beneficiary of this, with its exports to the US up 33% in the first half of 2019 compared with a year earlier. In its recent update, the Asian Development Bank incorporated this effect in its latest forecasts: in a worst-case scenario of 30% tariffs applied on all US-China goods trade growth in the region would be reduced overall by around 0.7 percentage points. But even here there would be winners receiving a boost to growth, including Vietnam, Malaysia, Thailand and Bangladesh.

The US-China trade war is a significant risk to the global economy at a time when the economic cycle has already turned down. By itself it is not likely to be sufficient to push the global economy into recession. But the trade war is one of several downside risks to the global economy. If one or more of the other economic risks materialize then downward pressure on the global economy would intensify. Already the risks and uncertainties that have been increased by the US-China trade war have prompted monetary easing from the US Federal Reserve, ECB and others, such as those in India, Malaysia and New Zealand. The outlook for the global economy is discussed in more detail in Section 3 of this report, Looking Ahead.

Some countries in Asia are winners in the trade war – boosting their exports to the US at the expense of those from China.

Chart 7: Winners in the US-China trade war

*Other Asian includes Vietnam, Thailand, Cambodia, South Korea, Malaysia, Philippines and Australia

Source: US Census Bureau: Foreign trade statistics

2. Global and regional analysis

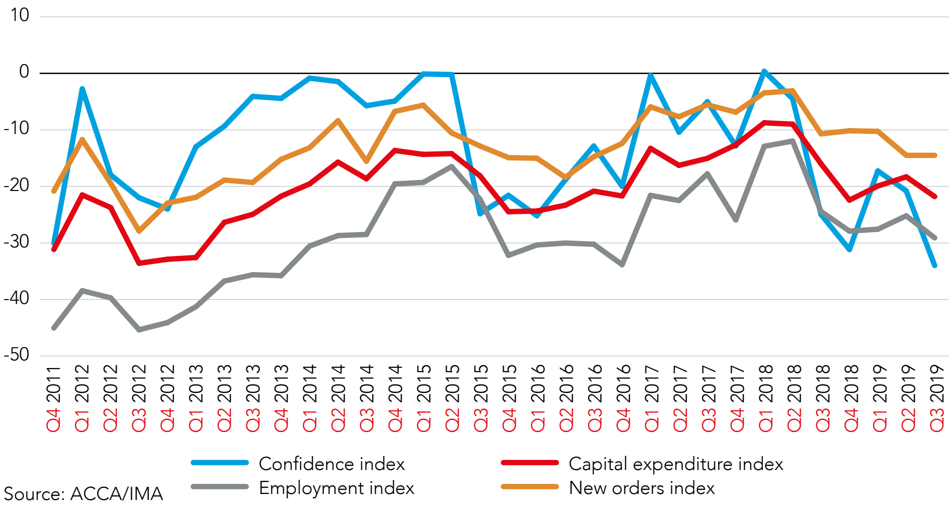
Global confidence, employment and investment indices all fell in Q3, orders were steady at a fairly low level.

The GECS global confidence index fell to its lowest level, below the recent low point reached at the end of last year. The orders balance held steady in the quarter but employment and investment indices fell back. Confidence and activity indicators are all significantly lower than a year ago.

Looking at confidence levels, all the key regions recorded a negative confidence score (i.e. there were more people pessimistic about the outlook than optimistic), with the lowest score being recorded in Asia Pacific and Western Europe. The most confident (or rather least pessimistic) part of the global economy was again South Asia and the Middle East. Even so, there was a trend of convergence in confidence levels in this survey with the gap between the most and least confident region narrowing significantly.

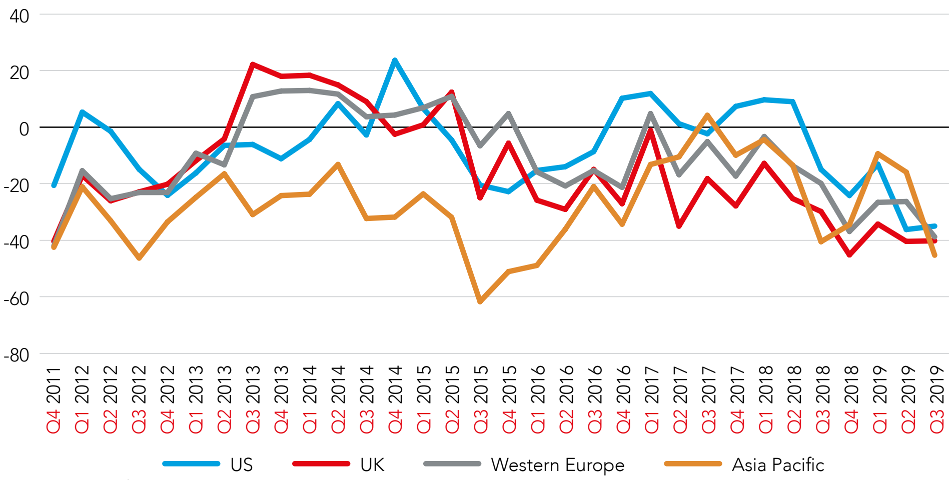
The global inflation picture continues to point to subdued cost pressures, reflecting the effects of a slowdown in economic growth. The GECS points to this continuing, with concerns about rising operating costs falling for five consecutive quarters, to the lowest level since 2017 Q1.

Chart 8: Global confidence dips in Q3, orders hold up



Source: ACCA/IMA

Chart 9: Confidence falls back in major economies



Source: ACCA/IMA

North America

Growth in the US held up in the first half of this year, with an annualised rate of 3.1% in the first quarter and 2% in the second.

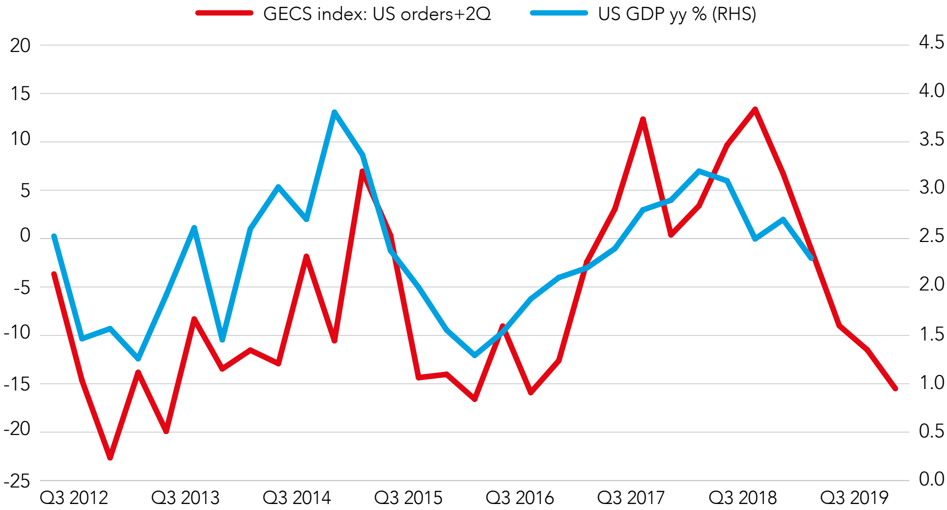
Consumer spending has been strong so far this year, reflecting a buoyant jobs market. Slower growth in Q2 was largely attributable to a fall in business investment. The outlook for 2019 as a whole is for growth of between 2% and 2.5%, down from 2.9% last year. For the third quarter, the Federal Reserve Bank of Atlanta's 'Nowcast' estimates GDP growth at 2.1% annualised, a similar rate to Q2. Both the jobs market and a revival in the housing market are likely to support continued consumer spending growth. True, the negative yield curve (where short-term interest rates are above long-term interest rates) persists and historically has indicated recession. But in the past *rising* short rates to counter inflationary pressures have pushed the yield curve negative; at present the yield curve is negative *despite* lower short-term interest rates.

The US GECS confidence measure actually increased slightly in Q3, one of very few positive changes. But confidence is still at a very low level, close to the all-time low, undermined by the trade war with China and by a slowing global economy. Orders fell further in the third quarter and are now consistent with US growth slowing to an annual rate of between 1% and 1.5% into 2020. (See chart above.) Our view remains that a US recession is highly unlikely, either this year or in 2020.

Increased uncertainty and tentative signs of a softer outlook have prompted a 50bps cut in the Federal funds interest rate, effected in July and September. Further easing is likely in coming months with market expectations of another 25bps cut in December. Inflation remains subdued below 2% and is likely to remain so in coming months, despite some upward influence from the effect of tariffs on Chinese imports. The GECS measure of concern about costs increased slightly in Q3 but remains well below its level of a year ago and is consistent with continued low inflation.

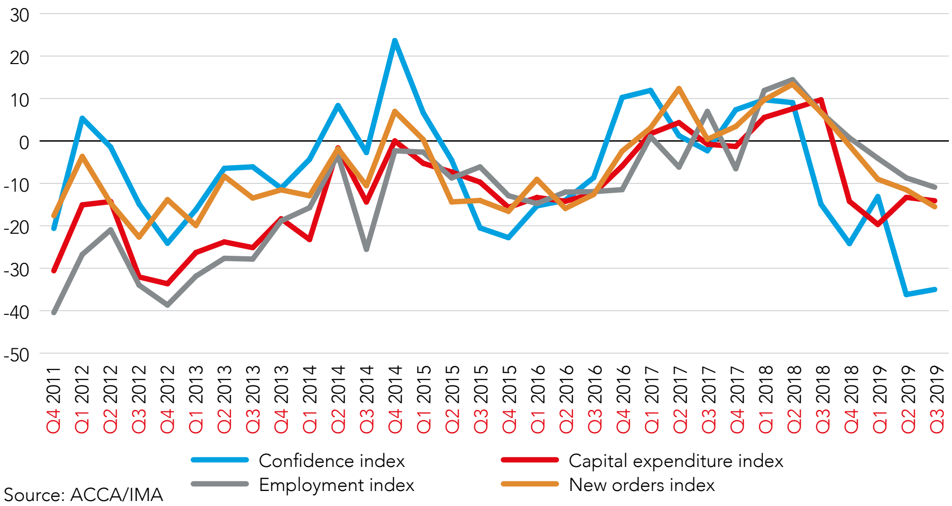
Orders fell further in the third quarter and are now consistent with US growth slowing to an annual rate of between 1% and 1.5% into 2020.

Chart 10: GECS US orders index points to slowdown



Source: ACCA/IMA, US Bureau of Economic Analysis

Chart 11: US confidence steadies, orders, employment fall



Source: ACCA/IMA

Asia Pacific

Confidence in the Asia Pacific region fell sharply in Q3, to the lowest level since the start of 2016.

Early 2016 was the last time there was great concern about the outlook for Chinese growth. So it is no surprise that confidence in the region is at low levels, given the continued slowdown in China. (See discussion in the thematic piece in Section 1.) But the structural slowdown in China as it adjusts to a less export and debt-driven growth model will perhaps be of greater importance in the region over the longer term.

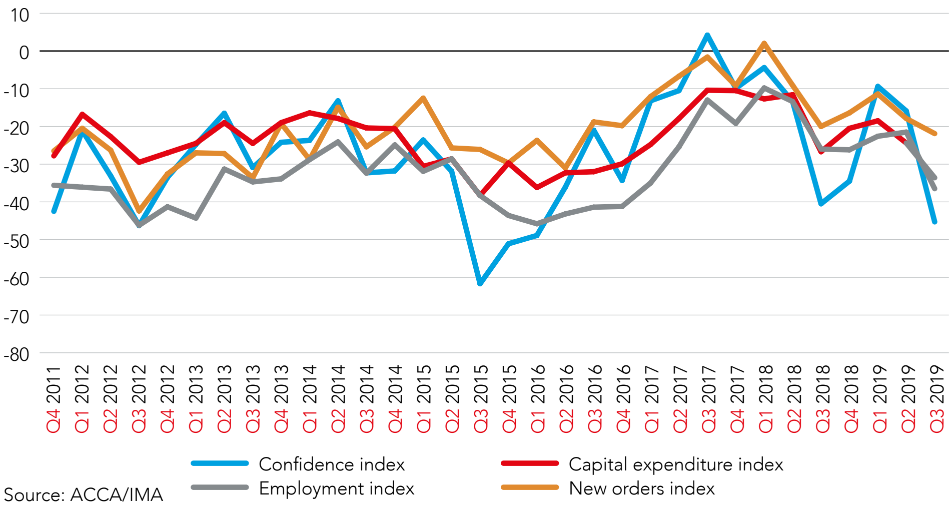
The intensification of the trade war with the extension of tariffs by the US to a wider range of Chinese imports from September is a clear negative. Already Chinese exports to the US are down by 16% in the year to August.

China in focus

The Chinese economy continues to lose momentum into Q3, even after Q2 GDP had shown growth slowing to an annual rate of 6.2%, towards the lower end of the official target range of 6% to 6.5% for this year. The most recent data on industrial output and fixed asset investment have pointed to a further loss of momentum. The intensification of the trade war with the extension of tariffs by the US to a wider range of Chinese imports from September is a clear negative. Already Chinese exports to the US are down by 16% in the year to August. In addition the recent African swine fever epidemic has resulted in a surge in pork prices and pushed up consumer price inflation to close to 3%, up from a low of 1.5% earlier this year.

Amid the gathering evidence of continued economic slowdown, it is surprising that the Chinese authorities have so far responded with relatively little in the way of easing measures. To date the main policy response has been through cuts in banks' reserve requirements, freeing up liquidity for increased lending. But there has been no cut in the prime lending rate or channelling of government funds through local government finance vehicles as has occurred in the past. Concerns about exacerbating high levels of debt are a significant restraint on policy easing. Such easing as does take place looks likely to aim to cushion the slowdown rather than reverse it.

Chart 12: Asia Pacific measures point to weakness



Source: ACCA/IMA

Chart 13: Slowing China

Source: Federal Reserve Bank of Atlanta Databank

Western Europe

The eurozone economy is stalling, dragged down by the downturn in the global industrial cycle.

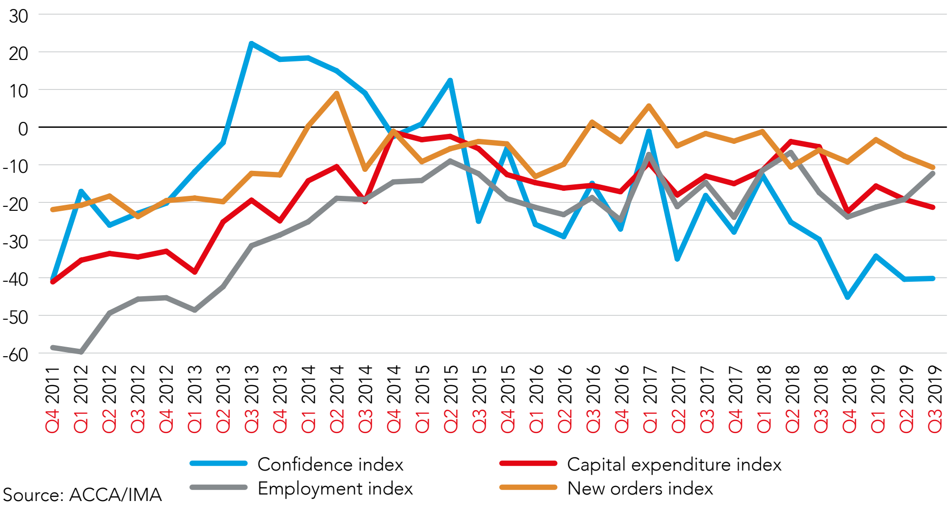
Germany, hitherto the powerhouse of euro-zone growth, may be on the brink of a technical recession. German exports are declining as global trade softens and the car industry undergoes structural change as well as weak demand. As expected, the ECB eased policy in September, cutting interest rates and restarting asset purchases, which were only stopped at the end of last year. Very low inflation, at around a 1% annual rate, underpins the ECB's decision to ease policy. Low inflation may also offer one area of support to the euro-zone economy by helping to lift real income growth and consumer spending. But this will only partially offset the downward influence from the industrial and export cycle so that overall growth this year will be around 1% and a little higher in 2020. In the meantime, Brexit uncertainty, especially the increased prospect of a no-deal Brexit, adds to the downside risks to the euro-zone economy.

Despite a GDP contraction in Q2, the UK economy should resume growth through the second half – but Brexit uncertainty continues to cloud the outlook.

UK in focus

Despite a dip in Q2 the UK economy is on a modest expansionary trend. Growth will almost certainly have returned in Q3, avoiding a technical recession. Consumer spending is likely to rise steadily, supported by a strong jobs market and rising real wages. The main drag from continued Brexit uncertainty is on business investment, which at this stage of the business cycle is usually quite strong. Instead it is declining and the UK GECS capital expenditure index fell close to a six-year low in the latest survey. But the GECS also does not point to corporate distress or imminent recession – the balance of respondents concerned about suppliers or customers going out of business remains at low levels.

Chart 14: The UK economy still hampered by Brexit uncertainty



Source: ACCA/IMA

Middle East

There was a divergence between the GECS confidence index and orders in Q3, the former falling and the latter improving.

Both are above the levels recorded through the second half of 2018 when oil prices fell sharply. The dominant influence on confidence in the region is fluctuations in oil prices (see Chart 15). The fall in confidence was greater than suggested by the relatively modest dip in oil prices between the Q2 and Q3 surveys. (The Q3 survey was completed just before the attack on Saudi oil facilities on 14 September.) Geopolitical risk increased over the quarter, centred on Iran, and this may explain the drop in confidence. But a more dominant influence on oil prices is likely to be reduced demand as a result of a slowing global economy.

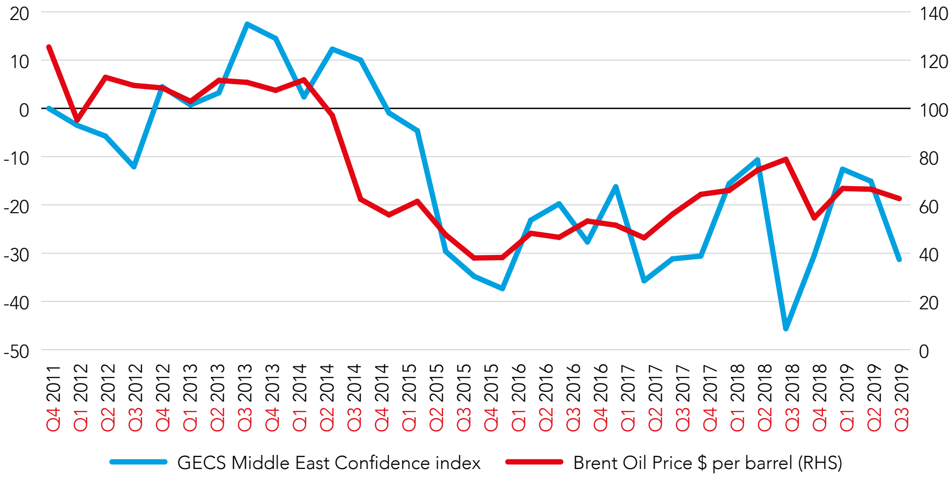
A positive development for those countries with a fixed exchange rate with the US dollar (Saudi Arabia, United Arab Emirates (UAE), Oman, Bahrain and Qatar) is the reduction in interest rates by the US Federal Reserve. The US cuts earlier this year were immediately followed by reductions of similar size in these countries. Lower interest rates should stimulate private sector credit growth and help to boost the non-oil private sector economy.

The real estate sector, increasingly important in many economies in the region, will benefit especially from lower borrowing costs. Encouragingly, the region's GECS index that measures problems accessing finance is close to a three-year low in Q3.

In Q3, most of the components of the regional index are slightly below their long-run average. This is consistent with growth in the region of around 1.5% to 2% this year. There are mixed results from government spending measures as some economies make greater efforts to boost the non-oil sectors of their economies, e.g. United Arab Emirates (UAE), Qatar and Saudi Arabia.

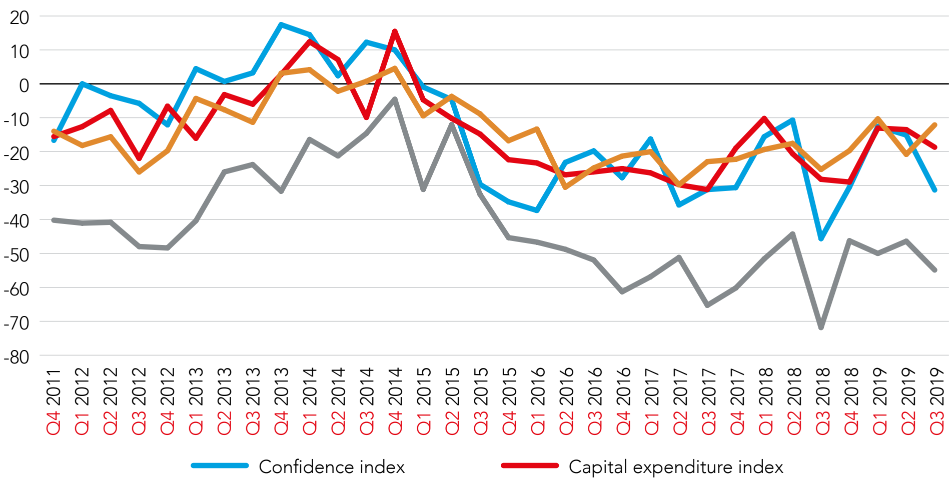
The fall in confidence was greater than suggested by the relatively modest dip in oil prices between the Q2 and Q3 surveys.

Chart 15: Middle East confidence tracks oil prices



Source: ACCA/IMA, US Energy Information Administration

Chart 16: Middle East relatively stable, confidence lags



Source: ACCA/IMA

South Asia

India and Pakistan are the dominant countries in this region and both are facing economic challenges.

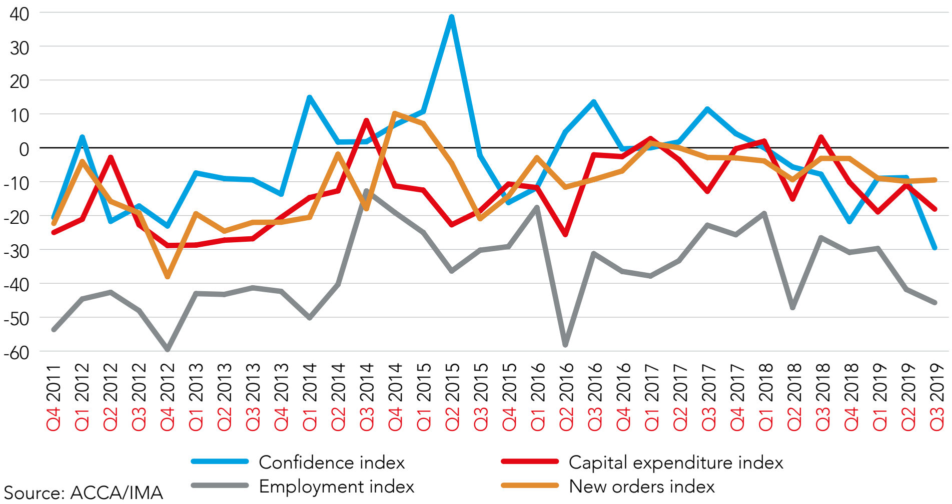
Growth in India has lost considerable momentum and in the year to Q2 GDP growth fell to a six-year low of 5%. The slowdown is broad-based, covering manufacturing, agriculture, real estate and other services. So far this year the Reserve Bank of India (RBI) has cut its key policy interest rates by a total of 110bps to 5.4%. The most recent cut in August was a larger than usual 35bps. RBI Governor, Shaktikanta Das, has indicated that, since inflation is well within target, there is scope for further rate cuts. A more recent attempt to boost the economy was the cut in corporate tax rates announced on 20 September. (The main rate is to fall from 30% to 22%.) The intention is to boost investment and employment. Indian confidence as measured in GECS fell quite sharply in Q3 to its lowest in almost seven years, reflecting the deteriorating economic outlook. The employment balance is particularly weak, suggesting continued deterioration in the jobs market. In its latest update the Asian Development Bank cut its 2019 GDP growth forecast for India to 6.5% from the previous 7.2%.

Meanwhile, there are signs of stability in Pakistan's economy, although growth is still expected to be a very modest 3.5% or so this year. But there have been some signs of improvement. The State Bank of Pakistan increased interest rates by 100bps to 13.35% in July but indicated a neutral stance. This stance was confirmed at the September policy meeting when interest rates were left unchanged. A stable currency and a commitment to end monetary financing of government deficits have eased inflationary concerns. There has also been a significant improvement in the current account deficit, primarily as a result of falling imports. Nevertheless, tight monetary and IMF-imposed fiscal restraint, along with a slowing global economy, will result in economic growth of only around 3.5% this year, well below the long-run average. The September update of the Asian Development Bank's forecasts put GDP growth this year at 3.3% falling to 2.7% in 2020.

Overall in South Asia, confidence fell in Q3 and is below its long run average. More positively, new orders are slightly above average, having picked up in the latest survey.

Overall in South Asia, confidence fell in Q3 and is below its long run average. More positively, new orders are slightly above average, having picked up in the latest survey.

Chart 17: South Asia – a less optimistic outlook



Source: ACCA/IMA

Africa

The latest GECS confidence index for Africa fell back after recovering in Q2.

Lower US interest rates is a positive factor since it eases the pressure for capital outflows from the continent. Many oil producers are struggling with supply bottlenecks and policy uncertainty. Investment in some of the large African economies should pick up into next year and the GECS measure of investment opportunities is on a strong upward trend with a big jump in Q1 2019. The global economic slowdown is a downside risk for Africa with China and the euro-zone – the major destinations for African exports – looking especially vulnerable. Growth in the region this year is likely to be around 3.5%, an improvement on recent years but still below the rate that will significantly lift per capita incomes.

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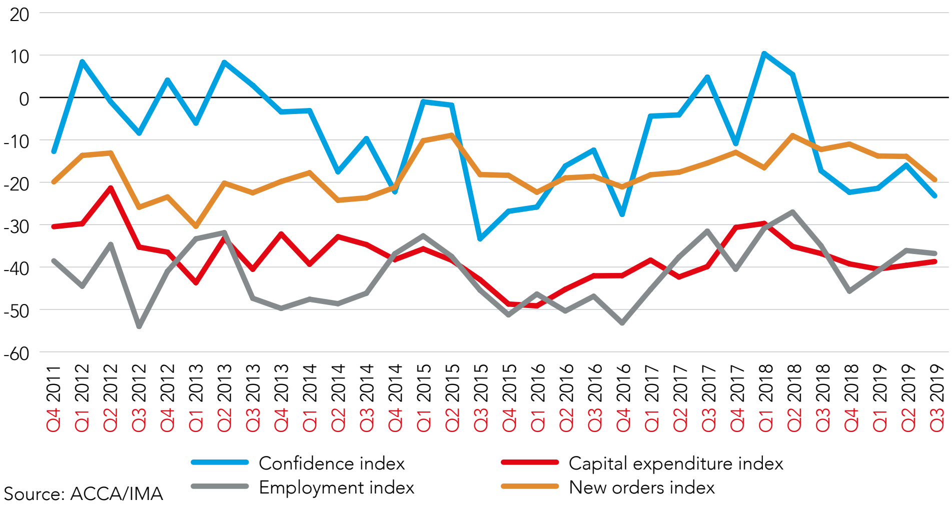
Chart 18: Africa steady at low levels



Source: ACCA/IMA

3. Looking ahead

Fears of a global recession are mounting as the global economy slows and well-documented risks become elevated. But buoyant consumer spending should keep recession at bay.

Fears of a global recession are mounting as the global economy slows and well-documented risks become elevated. The industrial and trade cycle has turned decisively downward, exacerbated by US-China trade tensions. At the same time unemployment and inflation are low in many countries, supporting consumer spending. In addition, monetary policy is being eased, led by the US Federal Reserve and this has allowed many other central banks to ease policy too in recent months. Our view, based on the GECS results, is that global recession will be avoided but the loss of global economic momentum is significant and the risks have increased.

The slowdown in China is a major factor in a weaker global economy. Growth in Q2 slowed to an annual rate of 6.2%, towards the bottom of the official target range of 6% to 6.5% for this year. The focus is very much on the trade war with the US and its likely effect on the Chinese economy. As discussed in Section 1 this is clearly having a negative influence on the economy. But even if there were peace and harmony in US-China trade relations it is important to note that the Chinese economy would still be slowing. This slowdown is mainly due to earlier monetary tightening, undertaken in an attempt to restrict credit growth as concerns about excessive levels of debt mounted. In addition, the authorities attempt to shift growth more towards consumption and away from investment and exports implies a structural slowdown in Chinese GDP growth. Against this backdrop, the rather tentative stimulus undertaken by the authorities so far points to an attempt to cushion the slowdown rather than reverse it.

The slowdown in China is reducing the demand for exports elsewhere, notably in the euro-zone, in particular in Germany. The German economy is heavily export dependent and the global trade and industrial downturn has stalled the economy. German GDP is likely to grow by less than 1% this year and with Italy barely registering any growth at all, the euro-zone as a whole is on course for GDP growth this year of at most 1.2%. This faltering euro-zone performance, alongside continued subdued inflation, has prompted the ECB to ease policy by cutting interest rates and restarting its asset purchase programme. Such measures may improve the supply of liquidity and credit, but persistent weak credit demand is the bigger issue.

In the UK the good news is that recession this year will probably be avoided. After a 0.2% quarterly GDP contraction in Q2 fears increased of a similar outcome in Q3 – implying a technical recession. But data so far points to resumption of overall growth in the second half of the year, albeit at a modest pace. Consumer confidence and spending are holding up, boosted by rising real disposable incomes. But Brexit uncertainty persists at a high level, even as the new deadline for leaving the EU (31 October) approaches. Until the political deadlock is broken business investment will be held back - the GECS confirms this. The Bank of England has so far not joined in the monetary easing cycle, but it may do so in coming months.

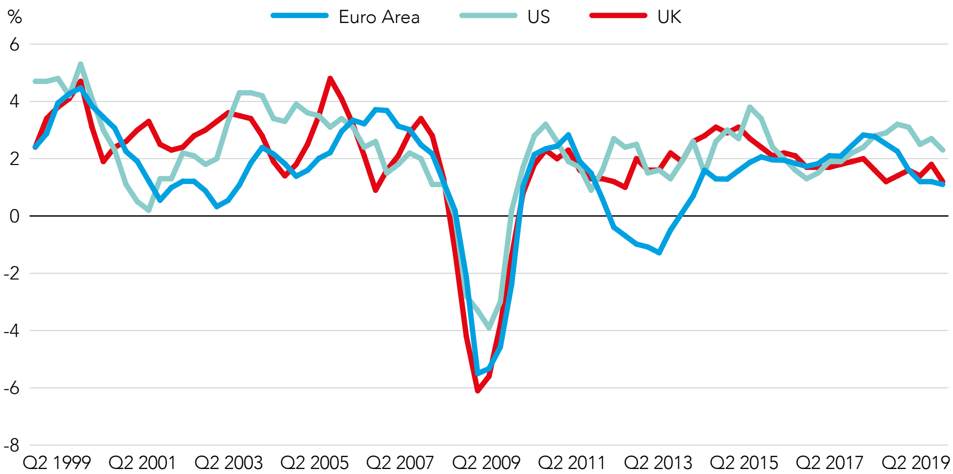
So far this year, the US economy has held up reasonably well, despite the fading effect of the 2018 fiscal boost. Interest rate cuts by the US Federal Reserve have been presented more as a way of maintaining healthy economic activity and acting as an insurance policy against the risks facing the global economy. The evidence so far of a significant slowdown in the real economy is mixed – investment has weakened but the consumer is relatively buoyant. The GECS orders index is consistent with GDP growth of between 1% and 1.5% annualised in the second half of the year. With no sign of a deterioration in the jobs market, a US recession is not likely in coming months.

Over recent months the outlook for EMs has deteriorated as the global slowdown in industrial production and trade has intensified. Growth in important destinations for EM exports, such as China and the euro-zone, has continued to weaken, undermining many export-led EM economies. The loss of momentum in the Indian economy in recent months and the continued debt crisis in Argentina have added to an overall gloomier picture. The good news is that the reduction in US interest rates has allowed for easier monetary policy in many other countries too. The extent to which this will stimulate economic activity will vary across countries but is likely to be most effective where a banking system is able to expand private sector credit growth.

Global growth this year may well dip below 3%, a material slowdown from last year's 3.6%. The most recent official forecasts from the IMF and World Bank were made in June and July and already look too optimistic. But the OECD updated its forecasts in September and these are summarized in the table below, also including recent Asian Development Bank forecasts for India and Pakistan. China and especially India are subject to growth downgrades. The US-China trade war is contributing to the gloomier outlook. But other factors are also significant, including China's structural slowdown and excessive debt levels, as well as the possibility of a no-deal Brexit and economic stagnation in the euro-zone. These risks have increased in recent months and the loss of momentum is likely to continue into next year. The issue is then whether there will be a recovery in growth in 2020 or further weakness resulting in global recession. Our view is that the latter is unlikely, since monetary policy is being eased and jobs markets remain buoyant across many economies with low unemployment rates. As long as final demand holds up the downturn in the industrial and investment cycle should not be too protracted. In its latest forecasts the OECD expects global growth to be 2.9% this year and 3% in 2020: this is due to stabilisation or recovery in certain stressed EMs, offsetting slightly slower growth in the US, UK, euro-zone and Japan.

Global growth this year may dip below 3%, a material slowdown from last year's 3.6%. The current outlook for 2020 is for around 3% growth, supported by recovery in some emerging markets. Risks are to the downside.

Chart 19: Global growth turning down



Source: Eurostat, ONS, Bureaus of Economic Analysis (BEA)

Table 1: OECD GDP Forecasts (September 2019)

% CHANGE	2018	2019	2020
World	3.6	2.9	3.0
USA	2.9	2.4	2.0
Euro area	1.8	1.1	1.0
UK	1.4	1.0	0.9
EMs and developing economies**	4.3	4.1	4.7
China	6.6	6.1	5.7
India*	6.8	6.5	7.2
Pakistan*	5.8	3.3	2.7
Middle East and North Africa**	1.4	1.0	3.0

Source: OECD 2019

*Forecast from ADB Sept 2019
** Forecast from IMF July 2019

Appendix I: Economies covered by Q3 survey responses

North America	Middle East	Asia Pacific	Central & Eastern Europe	South Asia	Western Europe	Africa	Caribbean	Central & South America
Canada	Bahrain	Australia	Bulgaria	Afghanistan	Cyprus	Cameroon	Barbados	Belize
Mexico	Egypt	Mainland China	Czech Republic	Bangladesh	Finland	Ethiopia	Bermuda	Brazil
USA	Iraq	Hong Kong SAR	Hungary	India	Germany	Ghana	Grenada	Columbia
	Israel	Indonesia	Moldova	Kazakhstan	Greece	Ivory Coast	Guyana	Costa Rica
	Jordan	Japan	Poland	Maldives	Ireland, Republic of	Kenya	Jamaica	
	Kuwait	Korea, Republic of	Romania	Nepal	Italy	Liberia	Puerto Rico	
	Lebanon	Malaysia	Russia	Pakistan	Luxembourg	Malawi	St Vincent	
	Oman	New Zealand	Slovakia		Malta	Mauritius	Trinidad & Tobago	
	Palestine	Philippines	Ukraine		Netherlands	Namibia		
	Qatar	Singapore			Spain	Nigeria		
	Saudi Arabia	Vietnam			Switzerland	Sierra Leone		
	United Arab Emirates				Turkey	South Africa		
					UK	Sudan		
						Tanzania		
						Uganda		
						Zambia		
						Zimbabwe		

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ACCA, IMA and the global economy

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www.accaglobal.com
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Global economic conditions continue to dominate business and political life. News 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 continue to consider strategies to promote stability and stimulate growth, the interconnectedness of national economies, and how they are managed and regulated, is now under close scrutiny. The development of the global accountancy profession has benefited from, and in turn contributed greatly to, the development of the 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.

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