



The Association of
Accountants and
Financial Professionals
in Business

Think Ahead



Global economic
conditions survey report:
Q3, 2016



About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. It offers 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 **188,000** members and **480,000** students in **181** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **95** offices and centres and more than **7,110** Approved Employers worldwide, who provide high standards of employee 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.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. It believes that accountants bring value to economies in all stages of development and seek to develop capacity in the profession and encourage the adoption of global standards. ACCA's core values are aligned to the needs of employers in all sectors and it ensures that, through its range of qualifications, it prepares accountants for business. ACCA seeks to open up the profession to people of all backgrounds and remove artificial barriers, innovating its qualifications and delivery to meet the diverse needs of trainee professionals and their employers.

In June 2016 ACCA formed a strategic alliance with Chartered Accountants Australia and New Zealand (CA ANZ). The alliance represents the voice of 788,000 members and future professional accountants around the world, who share the commitment to uphold the highest ethical, professional and technical standards.

More information is available at: www.accaglobal.com

About IMA®

IMA® (Institute of Management Accountants), the association of 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 80,000 members in 140 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/Africa.

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Global economic conditions survey report: Q3, 2016

The Global Economic Conditions Survey (GECS), carried out jointly by ACCA and IMA, is the largest regular economic survey of accountants in the world, in 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.

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Fieldwork for the Q3 2016 GECS took place between 2nd and 19th Sept 2016, and attracted 1,512 responses from ACCA and IMA members around the world, including more than 150 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 the GECS a trusted barometer for the global economy. We would also like to thank the following for their time and expertise:

- Andrew Kenningham, Senior International Economist, Capital Economics
- Freya Beamish, Senior Economist, Lombard Street Research
- Chris Williamson, Chief Economist, Markit.

Key confidence indicator rose for the second straight month and is now at its highest level since Q2 2015. That said, conditions in the global economy remain subdued: 37% of respondents are less confident about economic prospects.

- The GECS Q3 survey suggests that companies around the world are, so far, brushing off the effects of the UK's vote to leave the EU. Our key confidence indicator rose for the second straight month and is now at its highest level since Q2 2015. That said, conditions in the global economy remain subdued: 37% of respondents are less confident about economic prospects, compared with only 25% who are more confident.
- The biggest concern of companies in the third quarter was declining income, although the share of companies reporting this as a concern fell to 43% from 45% in the previous quarter.
- The share of companies reporting concern about excessive exchange-rate movements, meanwhile, has dropped to 29% from 32%.
- The recovery in confidence in Q3 was driven mainly by an improvement in the OECD economies, with confidence there at its highest since the second quarter of last year. Rising optimism that government spending would increase was a key factor behind this improvement. Confidence has also increased in non-OECD economies, with confidence in China now at its highest level since the start of 2012.

Economic confidence has improved over the past quarter. Overall measure of business confidence is now at its highest level since the second quarter of last year.

Economic confidence has improved over the past quarter. Indeed, our overall measure of business confidence is now at its highest level since the second quarter of last year.

The fact that the UK economy broadly appears to be weathering the initial fallout from Brexit has certainly helped, but other factors have also played a part. Better news from China has helped to support commodity prices, which in turn has lifted sentiment in other emerging markets.

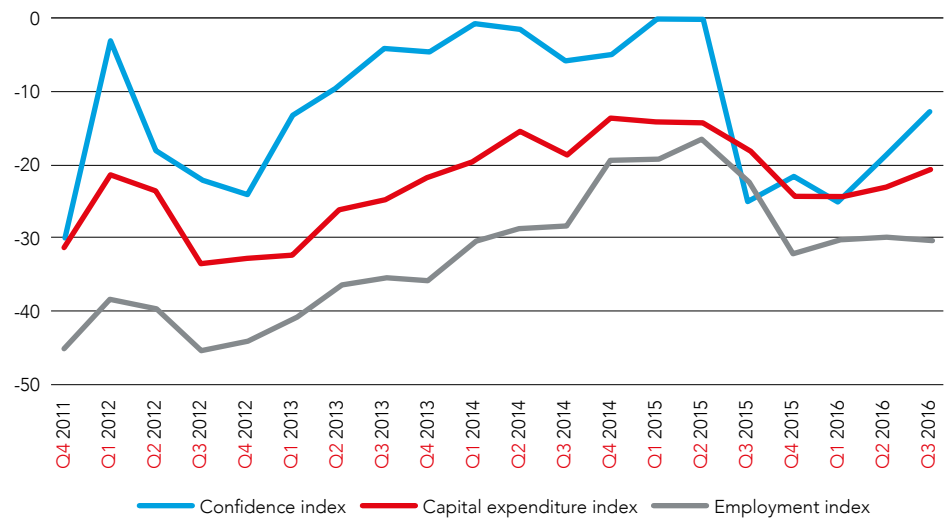
In addition to China, there are signs of improvement in the other big emerging markets. Deep recessions in Brazil and Russia are finally coming to an end, while easing inflation should open the door

for interest rate cuts soon that should further boost growth. In India, there are encouraging signs that Prime Minister Modi is starting to make good on his reform agenda after the passage of a landmark bill on goods and services tax in August.

Meanwhile, the US is continuing to experience a steady, if unspectacular, recovery, while even the Eurozone is showing tentative signs of improvement.

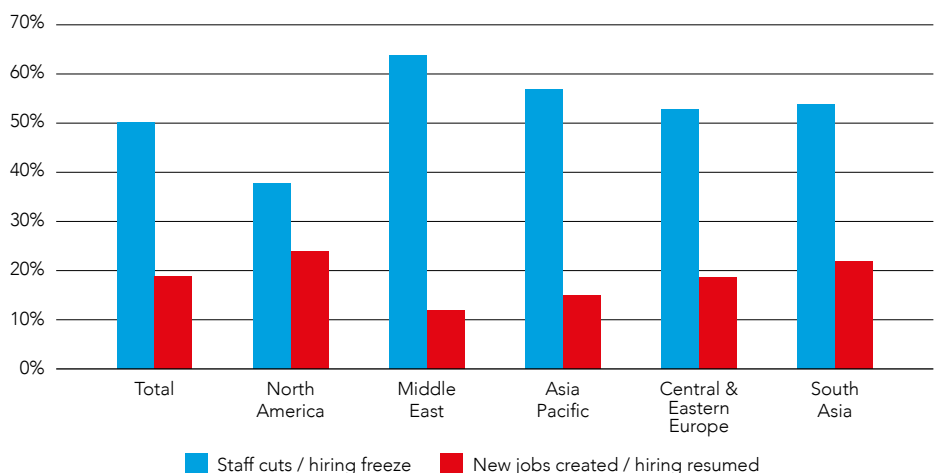
“When emerging markets pick up, they demand more commodities, the prices rise and there’s a greater chance that everything becomes a self-fulfilling upturn that gains momentum,” says Chris Williamson of Markit.

Chart 1: Global confidence rising



Source: GECS

Chart 2: Hiring freeze holds



Source: GECS

It is notable that the region where concern about declining income is lowest is Western Europe. This reflects the fact that, although growth is weak, economic conditions are starting to improve.

A key factor behind the improvement in global confidence in Q3 was a rise in the government spending index, which is now at its highest level since the third quarter of 2014. The capital expenditure index also picked up slightly – as did the new orders index.

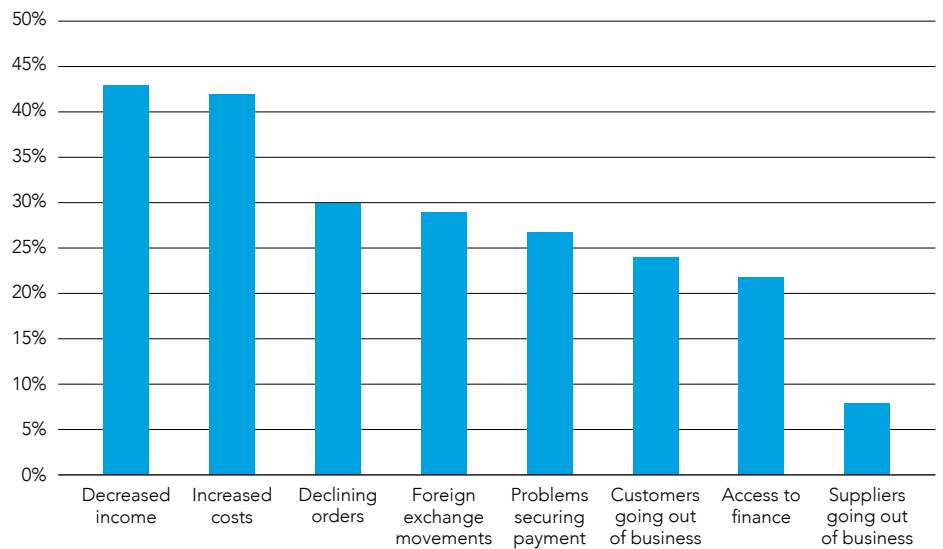
The improvement in global confidence has not so far been matched by a pickup in hiring: 50% of respondents say their business is considering either a hiring freeze or staff cuts, compared with just 19% who say they are hiring more staff. In every region there were more businesses planning to cut staff than hire more.

Declining income was the biggest concern of companies in the third quarter. On the plus side, the number saying that this is a problem has fallen to 43% – down from 45% in the second quarter. It is notable that the region where concern about declining income is lowest is Western Europe. This reflects the fact that, although growth is weak, economic conditions are starting to improve.

The number of companies concerned about excessive exchange-rate movements has fallen to 29% from 32%. Over the past quarter, apart from sterling (which fell sharply after the Brexit vote), most other major currencies have remained relatively stable. In particular, fears that the Chinese may be looking for a substantial devaluation of the renminbi have eased.

43%
of companies are saying that declining income is a problem

Chart 3: Income is the greatest concern



Source: GECS

The recovery in confidence in Q3 has been driven mainly by an improvement in the OECD economies, with confidence there at its highest since the second quarter of last year.

A slightly higher number of respondents say that they see rising costs as a problem (43%, compared with 39% in the previous quarter). This is hardly a surprise: as economic conditions have improved, workers have attempted to push up wages, while the cost of inputs has also risen.

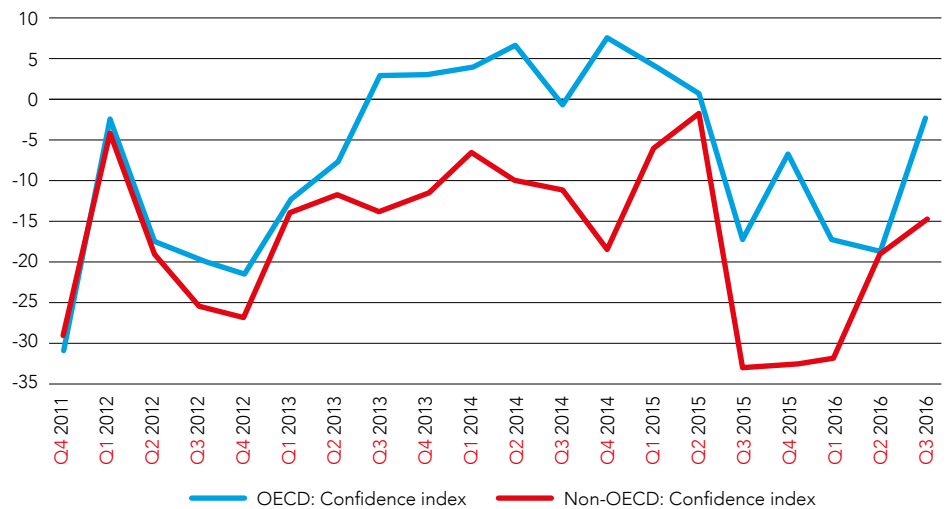
Firms remain focused on grasping the opportunities presented by new technologies, with 37% of respondents saying they are looking to benefit from concentrating more on innovation. Disappointingly, however, only 14% of survey respondents say that they are looking at opportunities to increase orders – reflecting the fact that although conditions in the global economy are improving, the outlook remains fairly downbeat.

The recovery in confidence in Q3 has been driven mainly by an improvement in the OECD economies, with confidence there at its highest since the second quarter of last year. A key factor behind this improvement is rising optimism that government spending would increase.

Confidence has also increased in non-OECD economies. Continued recession in Brazil, which is dragging down confidence in Latin America, is a key factor behind the overall weakness. In contrast, confidence in China continues to grow, and is now at its highest level since the start of 2012.

37%
of respondents saying they are looking to benefit from concentrating more on innovation

Chart 4: Non OECD catches up



Source: GECS

More than half (59%) of respondents say that there would be no impact from the Brexit vote, with that proportion rising to 70% in North America.

BREXIT: A EUROPEAN, NOT GLOBAL, CONCERN

Outside of Europe, the global economy appears to have largely shrugged off the initial impact of the UK's vote to leave the EU. More than half (59%) of respondents say that there would be no impact from the Brexit vote, with that proportion rising to 70% in North America. The manufacturing purchasing managers' indices (PMIs), meanwhile, suggest that while global growth remains weak, it has been largely unchanged since the Brexit vote.

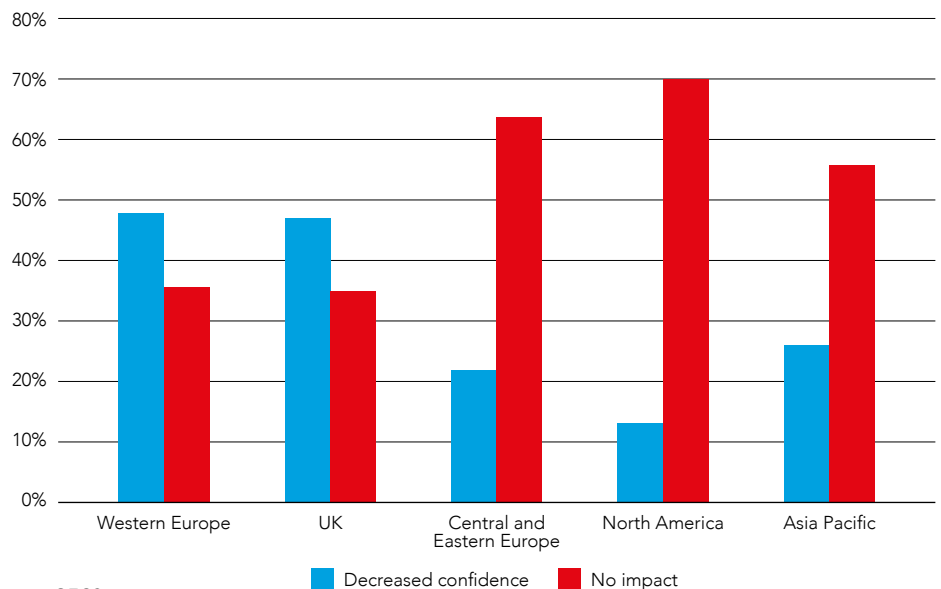
There are a number of reasons why global business confidence appears to have held up after the Brexit vote. The first is that the UK accounts for a relatively small share of the global economy: just 4% of global GDP. Second, Brexit has not actually happened yet, and will not be triggered until the end of March 2017. Third, there is still a great deal of uncertainty about

what will happen next. If the UK decides to aim for a 'soft Brexit', which may entail membership of the single market and free movement of workers, then very little might actually change.

The only region where the vote appears to have had a notable impact is Western Europe. According to our survey, 48% of respondents in Western Europe say that confidence has decreased as a result of the vote, while 47% of respondents say it will have a negative impact on confidence in the UK. By contrast, 36% of respondents in Western Europe and 35% in the UK think that Brexit will have no impact on their businesses.

Despite Brexit, overall business confidence held though it remains low in the UK. This can be attributed to respondents being comforted by a range of factors.

Chart 5: Brexit and its impact



Source: GECS

The fall in the pound, meanwhile – it is down by around 10% in trade-weighted terms since the vote – has helped to buoy confidence among UK exporters.

Although the UK has a new prime minister, the change has happened very quickly, with Theresa May replacing David Cameron within one month of the Brexit vote. Fears that months of political uncertainty would have a negative effect on confidence have not come to anything, and policymakers have acted quickly: the Bank of England has already cut interest rates by 25 basis points, with a pledge to do more at its November meeting; and the new chancellor of the exchequer, Philip Hammond, has announced that there will be an easing in the pace of austerity. The fall in the pound, meanwhile – it is

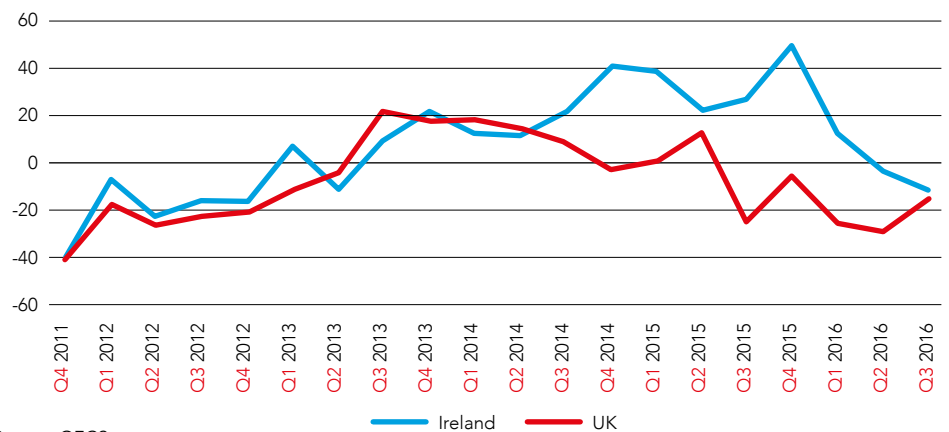
down by around 10% in trade-weighted terms since the vote – has helped to buoy confidence among UK exporters.

Andrew Kenningham of Capital Economics says that there is some downside risk to business investment – especially if major international-focused production moves out of the UK. "Consumption was never likely to be dramatically affected in the short term, and that seems to be borne out by events," he adds. "In fact, retail spending and consumer confidence have been pretty strong over the past few months."

10%

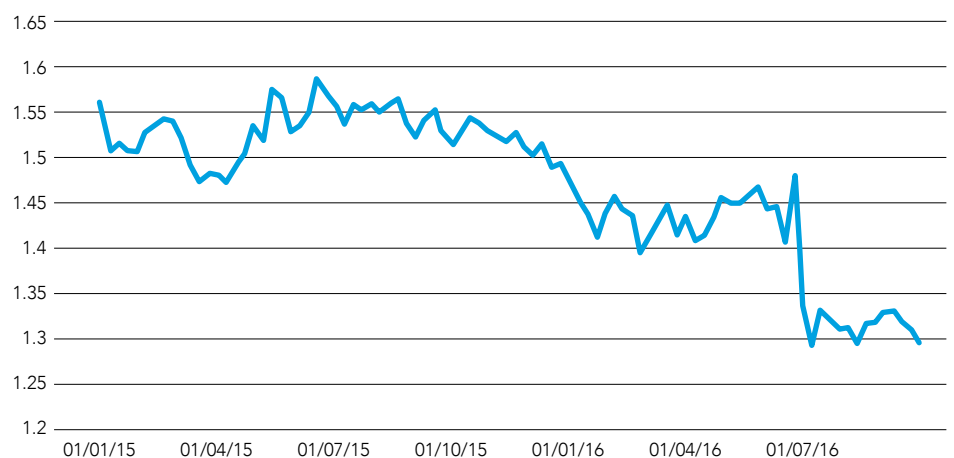
fall in the pound in trade-weighted terms since the vote

Chart 6: Confidence holds in the UK, but falls in Ireland



Source: GECS

Chart 7: Pound plummets against US dollar



Source: Bloomberg

Looking ahead, there are fears that global integration, instead of increasing, could go into reverse.

PROTECTIONISM ON THE RISE

Global trade volumes, which have been struggling for a number of years, fell in the second quarter of the year, having been stagnant the previous quarter. Other measures point to a decline in the pace of global integration. The global stock of foreign direct investment, which rose almost continuously during the 1990s and into the 2000s, has fallen since the 2008/9 global financial crisis and gone into reverse. Meanwhile, according to data from the World Trade Organization (WTO), countries are applying record numbers of trade restrictions against other nations: its members applied an average of 22 measures each month between October 2015 and May this year – the highest number since 2011.

Looking ahead, there are fears that global integration, instead of increasing, could go into reverse. The WTO's Doha round of negotiations remains stuck. The UK's Brexit vote looks to have given anti-EU parties in other countries a fillip, and may lead to a slowdown in the pace of European integration.

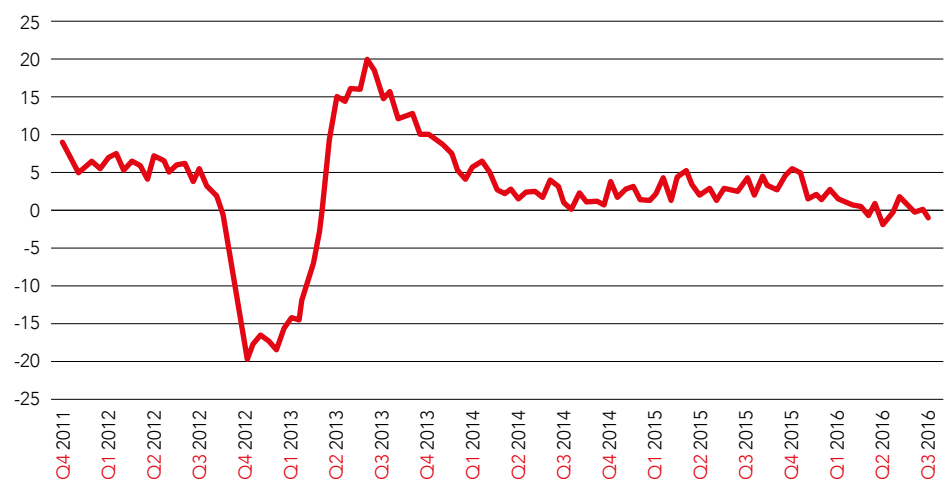
Both the World Bank and IMF have recently defended the role that free trade has played in increasing global prosperity, while admitting that some countries have lost out. Free trade in goods and services is a key driver of long-run productivity gains in the global economy, because it encourages countries to focus on what they are best at. All other factors being equal, a slower pace of global integration would lead to a slowing in the pace of global economic growth.

A DILEMMA FOR THE FED

Investors' attention over the next few months is likely to focus on when the US Federal Reserve will resume its interest-rate tightening cycle. Financial markets are pricing in a rate hike in December, but it is by no means a certainty.

"We are expecting a 25 basis point rate hike in December, followed by maybe three next year and another four the following year. In other words, we think interest rates will go up by two percentage points over the next two years or so," says Andrew Kenningham of Capital Economics. "That's a little bit more than the Fed is forecasting and it's quite a lot more than what the markets are expecting, but we think that they will cope."

Chart 8: Global trade growth slides (volumes)



Source: CPB

After a number of years of austerity, most developed economies should start to benefit from a fiscal boost over the coming year.

Arguably however, of much greater importance to the health of the US economy are concerns about whether the current monetary policy framework could leave the Fed unable to adequately deal with another recession.

With interest rates in the US currently at just 0.25 – 0.5%, the Fed has little room to manoeuvre if a new crisis hits, causing growth to fall back sharply. It could, of course, reintroduce quantitative easing (QE), which it has tried three times since the 2008/9 global financial crisis. But not only are there major doubts over the effectiveness of QE for boosting growth, there are also concerns that it can cause asset price bubbles to inflate.

cases, however, deficits are much lower than they were a few years ago.

The second factor has been a further fall in government bond yields, which are now negative in a number of countries. Negative bond yields have made it cheaper than ever for governments to borrow.

The third factor, which is related, is a growing acceptance by economists and governments that monetary policy may have reached its limits. Japan, the UK, the US, the Eurozone and Switzerland have all experimented with unconventional monetary policy over the past few years. The jury might be out over its effectiveness, but the consensus so far is that monetary policy alone will not be enough to wake the global economy from its slumber.

GOVERNMENTS REACH FOR THEIR WALLETTS

51%
of respondents expect an increase in government spending

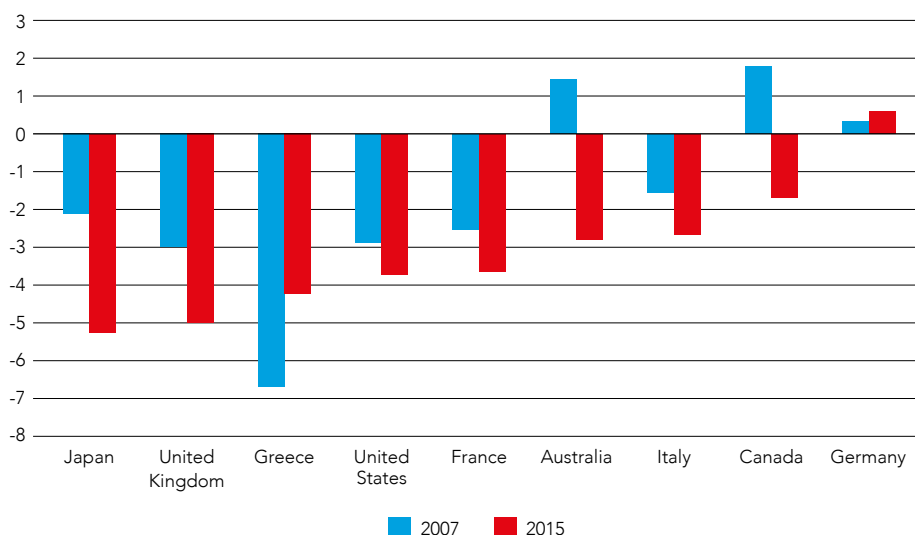
After a number of years of austerity, most developed economies should start to benefit from a fiscal boost over the coming year. In our survey, it is notable that 51% of respondents expect an increase in government spending, compared with just 33% who think that spending will fall.

A number of factors account for the change in direction. First, fiscal deficits across the developed world have come down significantly since 2008, reducing the chances of a fiscal crisis enveloping their economies. Of the major developed economies, only the UK and Japan have budget deficits above 5% of GDP. In both

The only two countries that look set to tighten monetary policy over the coming year are the UK and Japan, but even there austerity looks set to be eased significantly. In the UK, Chancellor Philip Hammond has pledged to slow the pace of austerity following the UK's vote to leave the EU. Meanwhile, the government in Japan has recently unveiled a large fiscal stimulus package to boost growth.

The shift to a more supportive fiscal policy will provide a welcome boost to global growth and should help to counter some of the downside risks to the global economy posed by the Brexit vote.

Chart 9: Budget balance % of GDP



Source: IMF

Confidence in North America has improved again in this quarter, with only 32% of firms reporting that they are less confident – down from 36% in Q2.

NORTH AMERICA

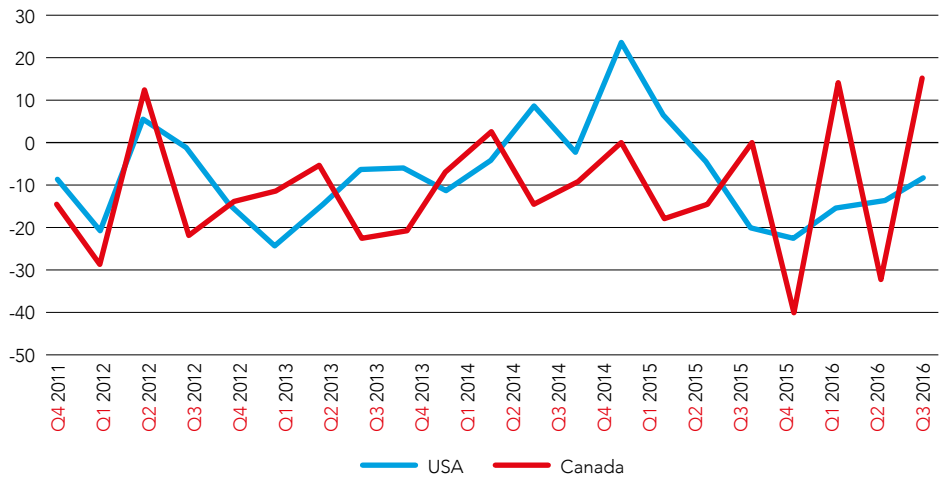
Confidence in North America has improved again in this quarter, with only 32% of firms reporting that they are less confident – down from 36% in Q2 and comfortably better than any other region apart from South Asia. Increased costs (45% of respondents) and falling incomes (39%) are the two main concerns of businesses in the region. Although 12% more firms are planning staff cuts or freezes than hiring more staff, the gap between the two is lower than in any other region.

In North America, Canada has recorded the biggest jump in confidence. Although there are continued concerns about the volatility of the currency, this is outweighed

by increased expectations of a rise in government spending. Recovering oil prices have triggered an increase in construction and investment.

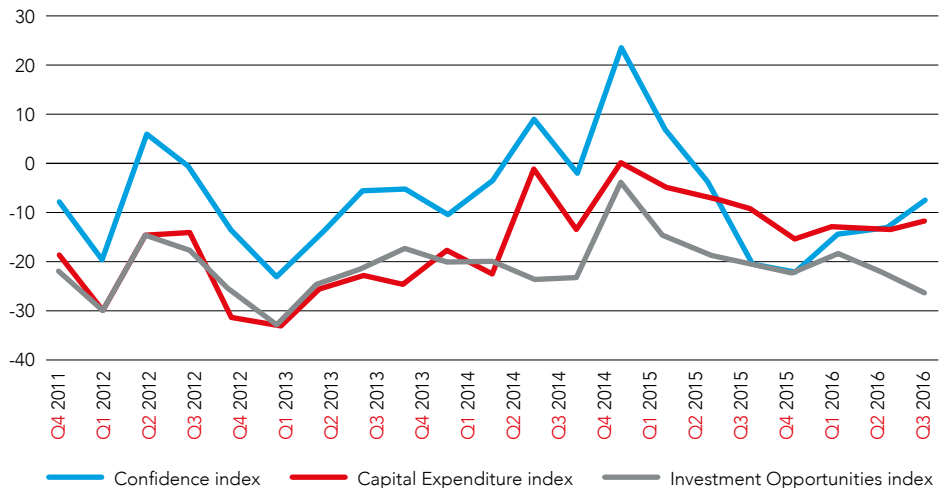
Business confidence in the US improved for the third quarter in a row in Q3 and is now at its highest level since Q2 of last year. The recent improvement in confidence coupled with strong employment growth and high core price pressures are all reasons to think that the Fed will resume its tightening cycle sooner rather than later. Indeed, although the Fed kept interest rates unchanged at its September meeting, it signaled pretty clearly that a rate hike was likely before the end of this year – most likely in December.

Chart 10: Canada bounces back



Source: GECS

Chart 11: US confidence rises



Source: GECS

Despite the UK's Brexit vote in June, overall business confidence recovered slightly last quarter across Western Europe.

The investment opportunities index fell to its lowest level since the final quarter of 2012. This possibly indicates that uncertainty over the outcome of November's presidential election is causing companies to put big plans on hold.

"It's certainly the year in which politics is playing a huge part in economic decision-making," adds Chris Williamson of Markit. "The upside is that you can get a decent bounce-back if the political uncertainty lifts. In the US you could see a pickup in growth after the election if policies aren't changed dramatically in terms of trade and openness."

tailwinds, you'd be expecting much stronger growth, so it does suggest that business spending has been restrained by the high degree of political uncertainty."

In particular, although a further break-up of the Eurozone no longer looks likely, growth prospects remain poor in a number of countries. Fragile banking sectors, large government debt burdens, slow productivity growth and a terrible demographic outlook mean that trend growth in the region is probably little more than 1% a year. Given this downbeat outlook, it is perhaps no surprise that the capital expenditure and employment components of the index remain deep in negative territory.

WESTERN EUROPE

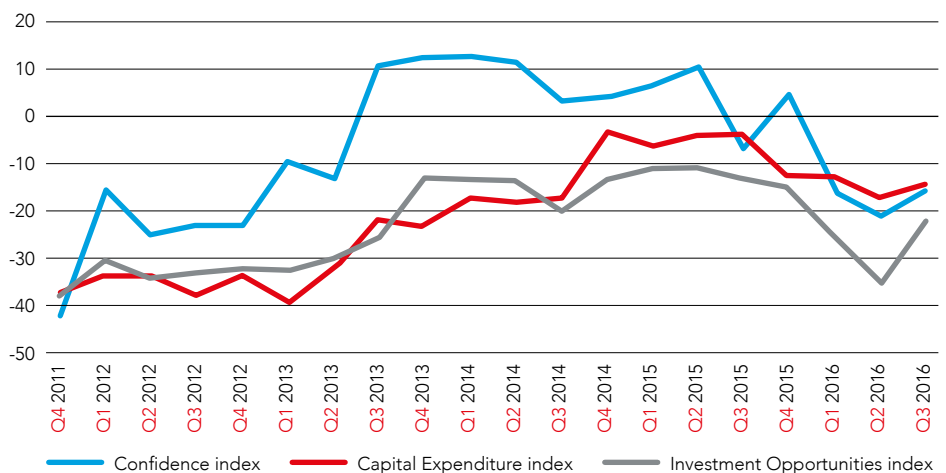
Despite the UK's Brexit vote in June, overall business confidence recovered slightly last quarter across Western Europe. That said, business confidence remains weak by past standards, reflecting the fact that while the economic outlook has improved a little over the past quarter, the growth outlook remains poor.

"We're looking at the Eurozone failing to achieve significant momentum. Not quite 3% growth rate across the euro area is feeble given the ECB [European Central Bank] stimulus in play," says Chris Williamson of Markit. "With consumer

Inflation in the euro-zone reached 0.4% year on year in September, up from 0.2% in August, and is now at its highest in two years. That said, it remains low by historical standards and with plenty of spare capacity left across the region, is likely to remain subdued for some time yet.

"There's an increasingly divergent situation in Europe's major economies. Perhaps that doesn't quite show up in inflation at the moment, because in the German case you would expect it to start showing up at this stage in the cycle," says Lombard Street Research's Freya Beamish.

Chart 12: Europe's gradual uptick



Source: GECS

Despite the somewhat surprising rise in UK confidence, companies remain downbeat about prospects.

THE UK AND IRELAND IN FOCUS

Although overall confidence remains weak in both the UK and Ireland following the Brexit vote, confidence actually increased in the UK but fell in Ireland in Q3. Despite the somewhat surprising rise in UK confidence, companies remain downbeat about prospects. Indeed, the main factor behind the overall rise in confidence was the hope that government would come to the rescue by easing the pace of austerity: the government spending index is now at its highest level since Q3 of 2014.

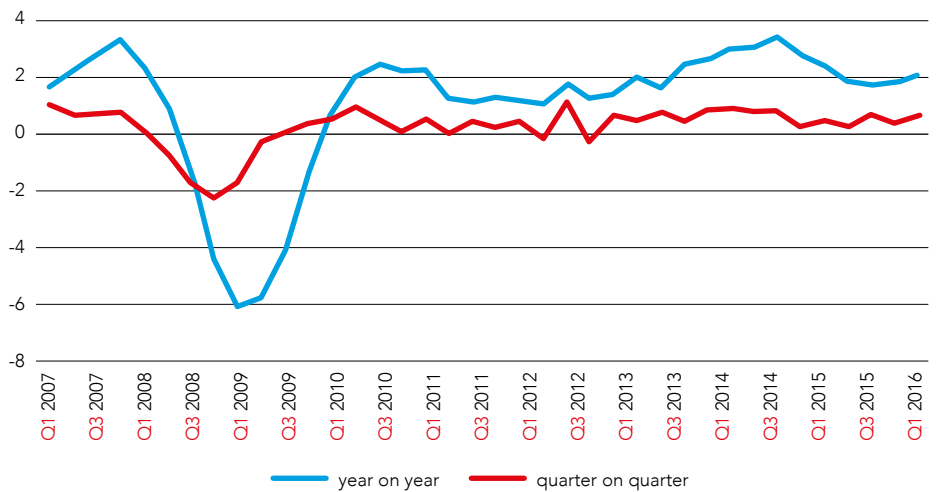
The capital expenditure, employment and new orders indices remain very weak. The most recent hard data continue to paint a broadly positive picture for the outlook. Second quarter GDP figures show that the economy grew by 0.7% quarter on quarter, so the economy was in good shape

before the Brexit vote. And although the manufacturing PMI fell back sharply in July, it has since rebounded strongly. Consumer confidence, meanwhile, has rebounded back to above its pre-referendum levels.

“It’s a much slower rate of expansion, but we’re not in a knee-jerk recession period,” says Chris Williamson of Markit. “There’s very little risk of that at the moment, although much clearly depends on how the Brexit discussions play out. We just don’t know.”

Meanwhile the sharp fall in confidence in Ireland reflects concern over the fact that it could find itself cut off from its biggest export market, the UK. If the UK opts for a ‘hard Brexit’, Ireland could find itself having to re-impose border checks with Northern Ireland, while its exports to the UK could be subject to a big increase in tariffs.

Chart 13: UK economy grows



Source: Office of National Statistics

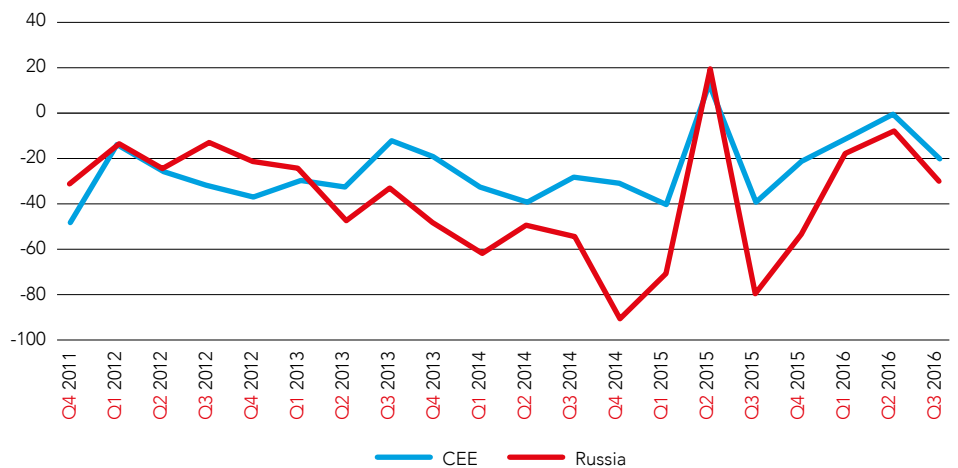
Confidence in Russia has worsened, and although the economy has passed the worst stage of the crisis that began in 2014 with the slump in the oil price, the outlook remains bleak.

CENTRAL AND EASTERN EUROPE

In Central and Eastern Europe (CEE), a bright spot of Q2's survey, confidence started to fade in Q3. CEE is heavily exposed to the slow-growing Eurozone, and it appears that poor growth prospects have weighed heavily on sentiment in Q3, with the number of companies complaining

about a lack of investment opportunities rising sharply. Confidence in Russia has also worsened, and although the economy has passed the worst stage of the crisis that began in 2014 with the slump in the oil price, the outlook remains bleak. Oil prices might have rebounded from the lows they dropped to at the start of the year, but they remain low by past standards.

Chart 14: CEE confidence fades



Source: GECS

Reflecting their confidence in the long-term outlook, companies in South Asia are more likely than any other region to report that they are planning to increase their investments in capital projects.

SOUTH ASIA

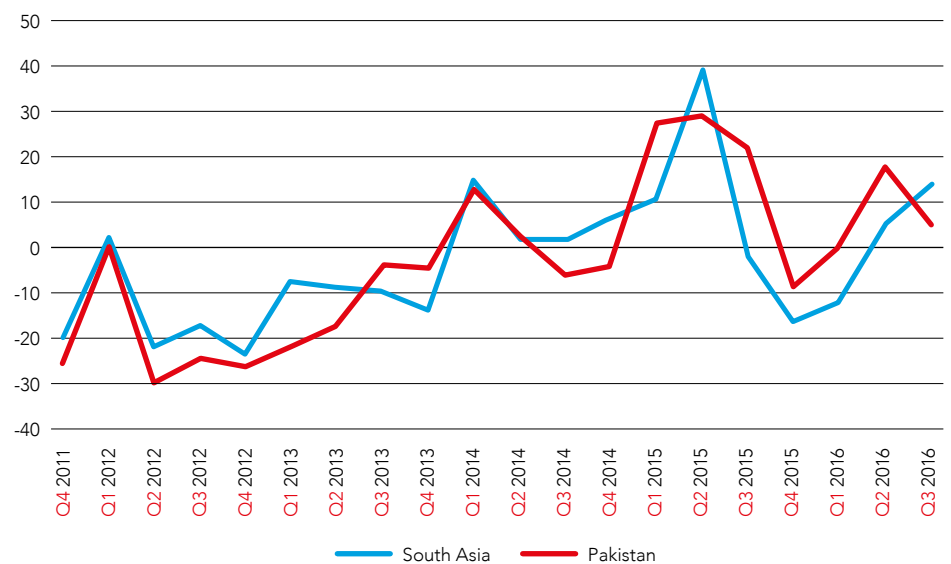
Business sentiment rose again in South Asia in Q3, with 38% of companies reporting that they are more confident about economic prospects – a higher share than in any other region. Reflecting their confidence in the long-term outlook, companies in South Asia are more likely than any other region to report that they are planning to increase their investments in capital projects.

Improving prospects in South Asia’s main economies appear to be driving this

positive sentiment. In India, which is now the fastest-growing major economy in the world, confidence has been boosted by the recent passage of a goods and services tax, which should boost revenues and increase competition across the country’s various states. Fears that the resignation of the highly respected Raghuram Rajan as governor of the central bank might lead to a politically motivated appointment were quashed with the appointment of Deputy Governor Urjit Patel, a renowned inflation hawk who is, on the whole, expected to maintain the current direction on policy.

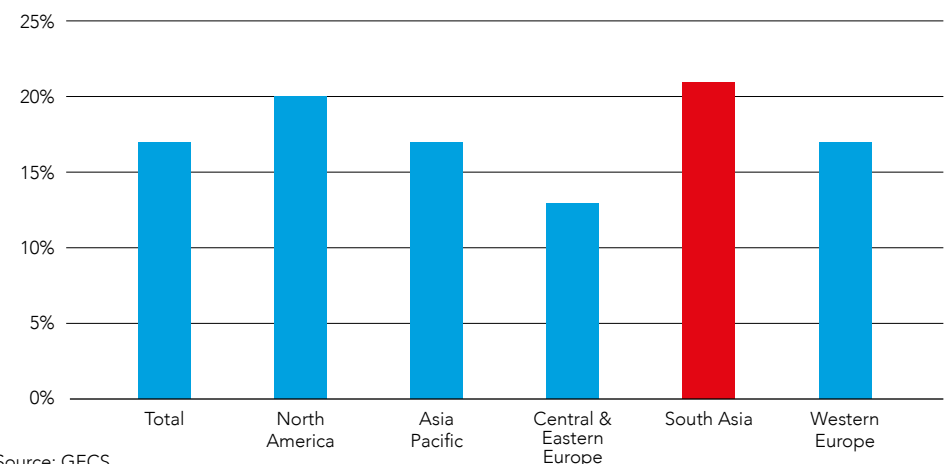
38%
of companies reporting that they are more confident about economic prospects

Chart 15: South Asia’s positive sentiment



Source: GECS

Chart 16: Increased investment in capital projects



Source: GECS

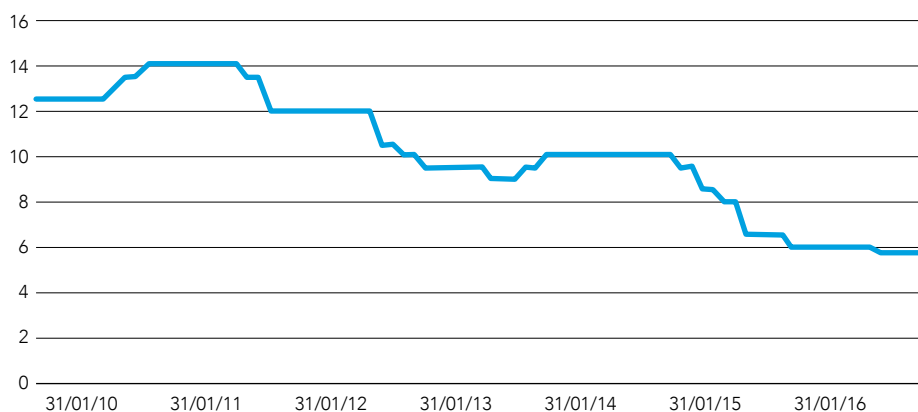
But while the short-term economic outlook remains positive, there is growing concern over how Pakistan will cope now that its IMF programme has come to an end.

PAKISTAN IN FOCUS

There was a marked drop in confidence in Pakistan in Q3. On the positive side, businesses are continuing to benefit from a series of aggressive rate cuts by the central bank as well as the start of construction of the Pakistan-China Economic Corridor, a series of huge infrastructure projects worth nearly US\$50bn (20% of GDP) that are designed to transform the country's substandard infrastructure.

But while the short-term economic outlook remains positive, there is growing concern over how Pakistan will cope now that its IMF support has come to an end. Foreign-exchange reserves have been rebuilt over the past few years, which reduces the chances of a balance-of-payments crisis. However, there is concern that fiscal discipline may start to slip without the IMF to monitor progress.

Chart 17: Pakistan interest rates



Source: State Bank of Pakistan

Confidence across Asia Pacific has improved for the fourth consecutive quarter – thanks in large part to improved confidence in the region’s biggest economy, China.

ASIA PACIFIC

Confidence across Asia Pacific has improved for the fourth consecutive quarter – thanks in large part to improved confidence in the region’s biggest economy, China. However, although confidence does appear to be improving, it remains weak compared with other regions.

Across Asia Pacific, 46% of respondents report feeling less confident about their prospects than last quarter – higher than any other region apart from Latin America, and well above the global average of 38%. Weak export growth, which has dragged down growth in the region’s most trade-dependent economies – namely Taiwan, Hong Kong and Singapore – has been a key factor holding back economic prospects. Rising levels of household debt, especially in Korea, Singapore, Malaysia and Thailand, have been another concern.

In Q3, confidence in Hong Kong increased sharply, while it fell in Singapore, and was broadly flat in Malaysia. The sharp rise in confidence in Hong Kong reflects the improved prospects for China, which is Hong Kong’s largest trading partner. The fall in Singapore could have been due to renewed concerns over the outlook for the city state’s overheating property market.

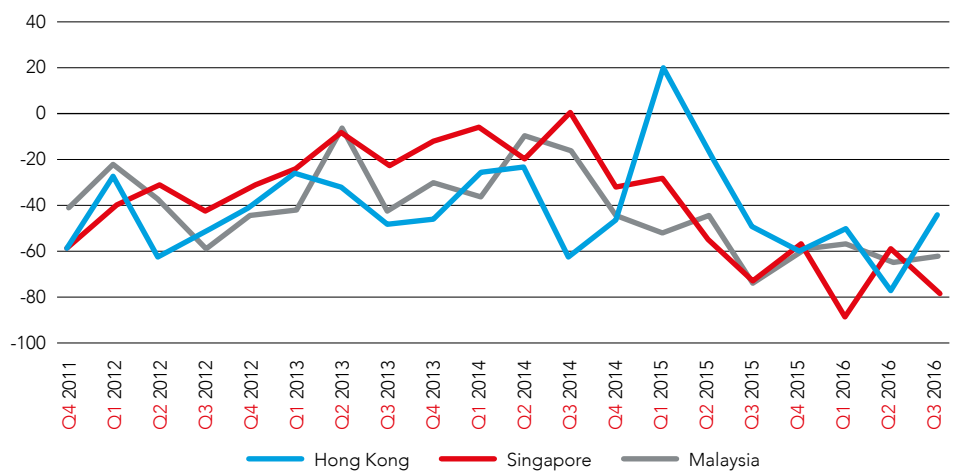
CHINA IN FOCUS

Confidence in China rebounded to its highest level since the first quarter of 2012, as fears that the country could be facing an imminent crisis continued to recede. The stability of the renminbi and a fall in capital flows led to a decline in the number of respondents worrying about exchange-rate stability. Meanwhile there was a sharp rise in the new orders component of the index, reflecting the impact of recent government

46%

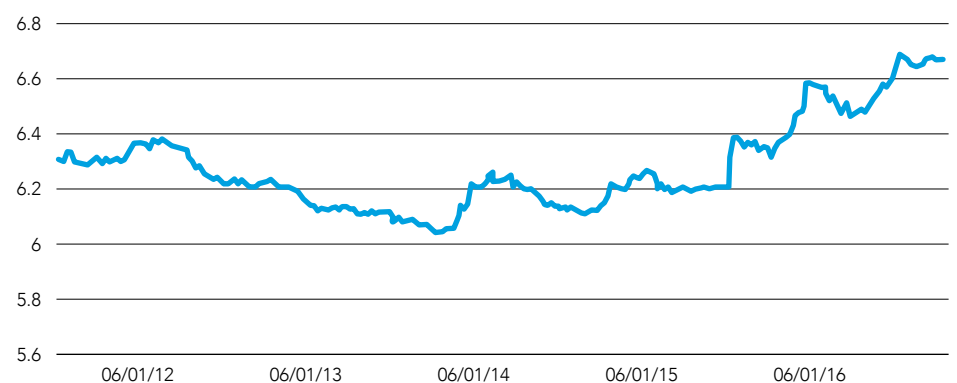
of respondents in Asia Pacific report feeling less confident about their prospects than last quarter

Chart 18: Singapore confidence slips



Source: GECS

Chart 19: RMB to US dollar



Source: Bloomberg

While China's prospects for the next 6–12 months have undoubtedly improved, there are worries about the longer-term outlook.

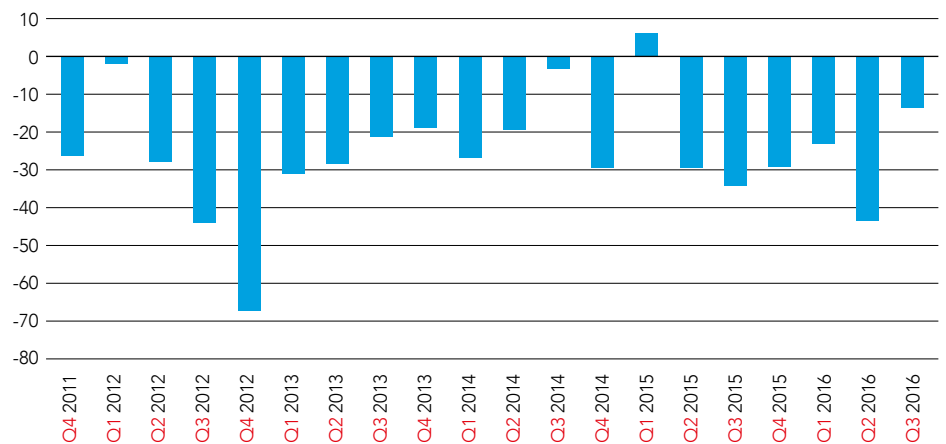
stimulus. While the country's prospects for the next 6–12 months have undoubtedly improved, there are worries about the longer-term outlook.

A series of interest rate and reserve requirement cuts, as well as fiscal easing over the past year, has led to an acceleration in credit growth and a pick-up in economic activity. However, there are signs that policymakers are becoming increasingly concerned about the implications of the recent credit binge, and will move to tighten lending requirements again.

Markit's Chris Williamson cautions that China's debt – and the debt-servicing payments as a proportion of GDP – are continuing to rise. His concern is that there could be a "mini financial crisis" caused by more defaults and loan impairments.

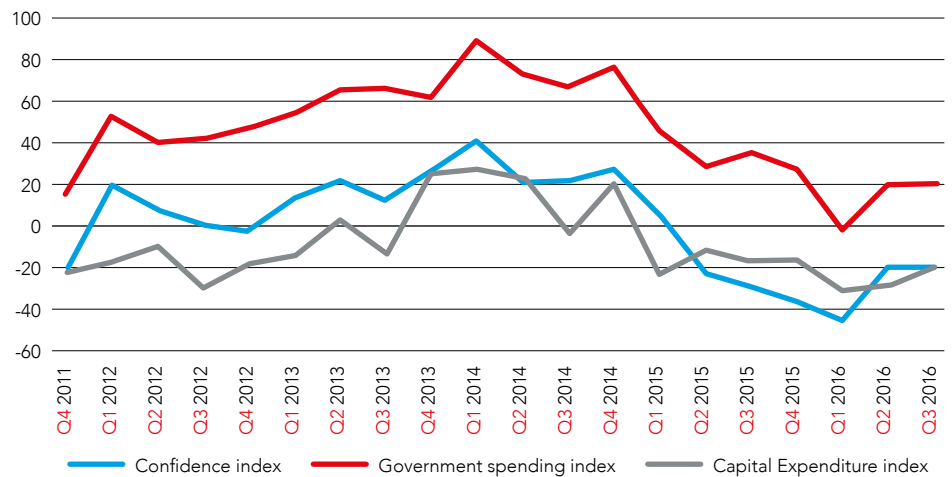
Tough political decisions are overdue, according to Andrew Kenningham of Capital Economics, with a need for harder budget constraints for banks and loss-making enterprises. In spite of this, however, he does not think an "uncontrolled crisis" is very likely.

Chart 20: New orders pick up in China



Source: GECS

Chart 21: China rebounds



Source: GECS

The slump in the oil price, which has led many governments in the Gulf to announce big cuts in state spending, has been a key factor behind the low level of confidence.

THE MIDDLE EAST

In Q3, economic confidence improved for a second consecutive quarter in the Middle East. Despite this, confidence remains low compared with other regions, with 44% of businesses reporting that conditions worsened last quarter, which is a higher share than any other region other than Africa and the Caribbean.

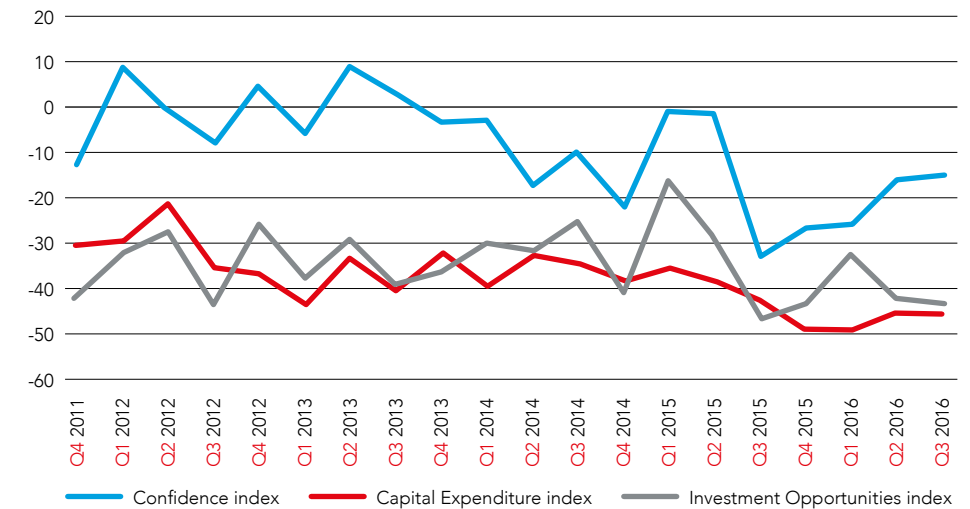
The slump in the oil price, which has led many governments in the Gulf to announce big cuts in state spending, has been a key factor behind the low level of confidence. It is noticeable that companies in the Middle East are especially downbeat about the prospects for investment opportunities, reflecting the fact that many of these countries are reporting the weakest rates of GDP growth since the 1980s.

THE UAE IN FOCUS

The UAE, like the rest of the Middle East, has been hit hard by the slump in oil prices. However, prospects in the UAE remain better than in the rest of the Middle East. For starters, the fiscal consolidation that has been under way for a couple of years means that the budget is already back in surplus, which reduces the need for further fiscal austerity. What's more, despite its large oil sector the UAE is one of the most diversified economies in the Middle East. With the logistics and tourism sectors holding up pretty well, growth in the UAE is likely to recover over the next couple of years.

44%
of businesses reporting that conditions worsened last quarter

Chart 22: Momentum continues in the Middle East



Source: GECS

Of all the problems facing companies in Africa, the two most significant are exchange-rate volatility and rising costs.

AFRICA

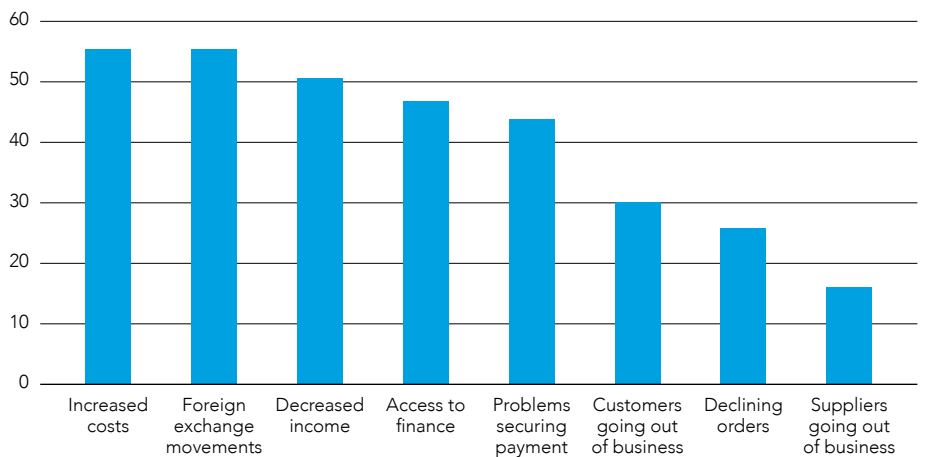
Economic confidence in Africa remains at rock bottom. Altogether, 45% of companies report that confidence fell in Q3, compared with just 29% of companies who report an improvement in conditions. This compares with global averages of 38% and 25% respectively. Two factors account for the current weakness. The first is the slump in commodity prices, which has hit export incomes, government revenues and investment. The second is economic mismanagement in the region's two biggest economies, Nigeria and South Africa, which has caused growth to slow sharply in both countries. Corruption and political instability have dragged down economic confidence, damaging investment in both countries.

In general, two very significant issues to manage in Africa are exchange-rate volatility and rising costs. Indeed, more respondents in Africa (56%) are reporting that currency volatility is causing them problems than those in any other region. A related concern is increasing costs (also a problem for 56% of companies), as currency falls push up the cost of imports.

Economic confidence has improved again in the Caribbean, but remains very weak in Central and South America. The economies of the Caribbean are highly dependent on the US, and that country's recent improvement in economic growth bodes well for the region – most notably its tourism sector. Meanwhile, economic confidence in Central and South America is being dragged down by weakness in the region's biggest economy, Brazil, where the long-running political crisis and the terrible fiscal situation have knocked confidence.

56%
of respondents are reporting that currency volatility is causing them problems

Chart 23: Concerns in Africa



Source: GECS

Although economic activity in the UK has weakened a little since the June vote to leave the EU, it has held up much better than most people expected. Meanwhile, the rest of the world's economy has barely missed a beat.

Although economic activity in the UK has weakened a little since the June vote to leave the EU, it has held up much better than most people expected. Meanwhile, the rest of the world's economy has barely missed a beat. All of this is encouraging, but of course it is still very early days. The UK economy may slow when Brexit finally happens. The longer the government waits to make a decision on what kind of Brexit it wants, the bigger the eventual costs could be if firms decide to postpone investment decisions until the government makes up its mind. As things stand, Prime Minister May has committed to triggering Article 50, which gives the UK two years to extricate itself from the EU, before the end of March 2017.

With global commodity prices having stabilised, the outlook for the world's major commodity producers (mainly in Latin America, Africa and the Middle East) has improved. The collapse in prices however, has opened holes in most governments' finances that will need to be repaired over the coming years. Lower government spending will likely drag down growth in these economies for the next couple of years at least.

A key risk to the global outcome, however, is the upcoming presidential election in the US. The other big risk is linked to developments in China. Although recent economic data have continued to improve, the rapid build-up in debt over the past few years has raised concerns about the medium-term outlook. A financial crisis that causes a sharp slowdown in growth in the world's second-biggest economy would send shockwaves through the rest of Asia and beyond.

A hard landing in China or a recession in the US would present a major challenge at the best of times, but with policymakers currently short of ammunition, the timing could hardly be worse. Interest rates are already at or close to zero across most of the developed world, leaving central banks with little to fall back on if growth takes a turn for the worse. What's more, although governments are starting to ease the pace of austerity, few have the breathing space for investment.

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	China, People's Rep of	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		

ACCA, IMA and the global economy

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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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