Global Economic Conditions Survey Report: Q2, 2009

ABOUT ACCA

ACCA 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.

We support our 131,500 members and 362,000 students throughout their careers, providing services through a network of 82 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities. Our focus is on professional values, ethics, and governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

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Executive summary

ABOUT THE GLOBAL ECONOMIC CONDITIONS SURVEY

The second ACCA Global Economic Conditions Survey took place between 7 and 28 May 2009 and attracted responses from 546 of our members in 77 jurisdictions around the world.

As with the first survey,[1] respondents were questioned on the effects of economic conditions on their businesses and clients as well as the responses of government and the business world. The survey also recorded their perceptions of economic prospects for themselves, their organisations and the world economy.

Two important new issues were raised in the second survey. First, respondents were invited to offer views on what the world will look like after the present economic downturn has run its course. The second survey also introduced a new question on the quality of reporting by the mass media.

OPTIMISM RETURNS

The results of the latest Global Economic Conditions Survey suggest that finance professionals are ready to call the bottom of the global economic downturn and believe that recovery should be possible within the next 18 months. Loss of business confidence has slowed substantially, coming to a virtual halt in key areas such as the Asia Pacific region, and even reversing in key sectors such as small and medium sized enterprises (SMEs) and large financial services firms.

Finance professionals, however, also point to the significant downside risks attached to such forecasts. Particularly relevant are the predictions of public sector accountants, who have consistently forecast a longer downturn than other ACCA members. It is very likely that these professionals are anticipating the drag imposed on economic growth by the financial austerity measures that are sure to follow in the medium term.

The first global economic conditions survey found that approval of governments' actions was instrumental to restoring faith in the global economy. Following massive levels of intervention around the world, perceptions of government have improved. Even though perceptions have not shifted in proportion to the stimulus applied, the significant changes in members' forecasts almost certainly owe something to government initiatives. In some regions, particularly Western Europe, these efforts may have been somewhat compromised by what many respondents saw as inaccurate or unbalanced media coverage of economic conditions.

TRADING CONDITIONS SHOW ONLY MARGINAL IMPROVEMENT

With regard to trading conditions, the results for the second quarter of 2009 are remarkably similar to those of the previous survey. Apart from interest rate fluctuations, which have become less severe in the second quarter, most negative business impacts have receded only marginally. Some indicators have, in fact, deteriorated slightly: of these the incidence of late payment is probably the most troubling. And while fewer respondents indicate that they expect their organisations' income to fall over the next three months, these still outnumber those forecasting an increase by more than two to one.

Finance professionals are still citing cost-cutting as the most likely area of opportunity, followed by closer relationships along the value chain and the exploration of new markets. Significantly, marginally fewer businesses appear to be exploiting changes in customer behaviour and preferences, even though such opportunities were closely correlated with rising business confidence in the first quarter of 2009.

1. *Global Economic Conditions Survey Benchmark Report: Q1, 2009*, ACCA, May 2009. **www.accaglobal.com/pubs/economy/analysis/acca/technical_papers/tech_17.pdf**

FINANCE CUTS CONTINUE DESPITE SIGNS OF RECOVERY

The pace of redundancies has picked up in finance departments around the world, with compulsory redundancies increasing in frequency since early 2009 even though voluntary ones did not. More organisations are also reported to have sought savings by reducing the financial training on offer. Redundancies have been most common in larger accountancy firms, while small practices, SMEs and especially the public sector have held on to more of their finance staff.

Encouragingly, finance professionals believe that redundancies and training cuts are now much closer to their peak utilisation than any other cost-cutting measure. Least utilised in this regard is the option of outsourcing, which could yet resurface in the near future.

GREEN SHOOTS OR RED HERRINGS?

It is too early to say whether or not we are seeing signs of a true recovery or simply a glimpse of false hope in what will eventually be a much longer downturn. Certainly, the return of optimism and confidence are puzzling, as trading conditions have improved only marginally. Both incomes and headcount are falling steadily at most organisations, perhaps faster than in the first quarter of 2009. Finally, investment in staff and capital is still falling at the same pace as it did earlier in the year. It is hard to reconcile these facts with the more optimistic forecasts.

The best explanation so far is that the worst-case scenario has failed to materialise, and that this has fed into the psychology of respondents in two crucial ways. First, there is evidence that optimism is slowly becoming disentangled from the work of governments and that respondents are more likely to think the global economy is back on auto-pilot. Second, confidence is once again tied to respondents' economic forecasts, a relationship that appeared to have been disrupted in early 2009 as panic swept over the world.

A NEW WORLD ORDER

As finance professionals prepare for the recovery and the post-crunch world, patterns are beginning to emerge in their thinking. The survey has uncovered the following leading themes.

Regulation
Stricter and more pervasive regulation will be the major characteristic of the global economy post-recovery. While financial institutions were expected to bear the brunt of this new regulatory offensive, some saw a general shift in attitudes towards government intervention. Only some respondents were confident that the new rules will be better in quality than the regime that preceded the downturn.

Credit and finance
Respondents expected the global economy to conform to tighter credit conditions in the future, acknowledging that the amount of lending to businesses, individuals and government has in the past reached unsustainable levels.

Efficiency
Respondents believe that harsh economic conditions would force organisations to look inward in search of cost savings and more efficient ways of doing business. Some of the business models established in better days are not expected to survive this new environment.

Risk management and corporate governance
ACCA has argued for some time that poor governance and limited understanding of risk was a leading cause of the financial crisis of 2007–9, and members around the world are predicting that stronger internal controls will now come to complement tighter regulation, especially in the financial services industry.

Consumer behaviour
Some respondents predict that consumers, especially in developed countries, will tighten their belts and become net savers as the lessons from the last year work their way into their preferences.

CONCLUSIONS

The second Global Economic Conditions Survey offers some encouraging news of renewed confidence and optimism, but little evidence of recovery in the fundamentals. The next survey will therefore look for real changes in trading conditions. It will examine whether the private sector is able to support its new-found confidence with investment in people and capital, and whether finance professionals in the public sector are justified in their pessimistic views of the global economy.

1. About the Global Economic Conditions Survey

ACCA is aware that different businesses in different countries are experiencing these challenging times in different ways. Yet for all the attention devoted to the matter, there is still relatively little concrete information and anecdotal reports can be misleading. ACCA's Global Economic Conditions surveys aim to fill in important gaps in the understanding of global economic developments – using the unique insights of finance professionals as a temperature check of the global economy.

The second Global Economic Conditions Survey was conducted between 7 and 28 May 2009 and attracted responses from 546 of our members in 77 jurisdictions around the world.

As with the previous survey, respondents were questioned on the effects of economic conditions on their organisations and clients as well as the responses of government and the business world. The survey also recorded their perceptions of economic prospects for themselves, their organisations and the world economy.

Two important new issues were raised in the latest survey. First, respondents were invited to offer views on what the world will look like after the present economic downturn has run its course. The second survey also introduced a new question on the quality of reporting by the mass media.

Figure 1.1: Respondents by sector

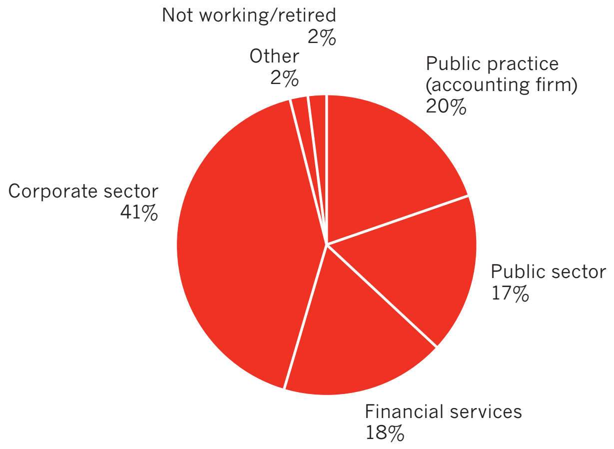


Figure 1.2: Respondents by role

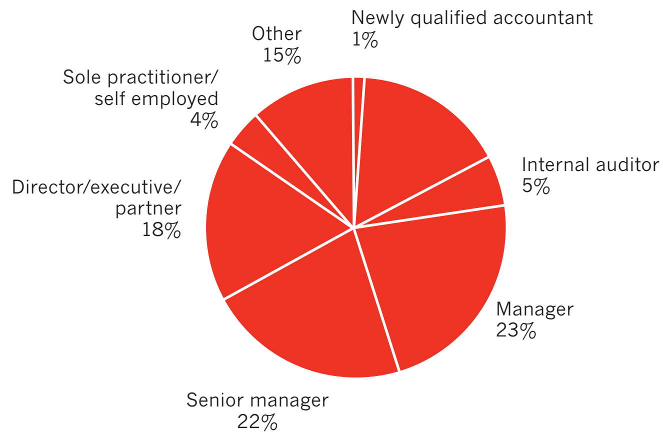
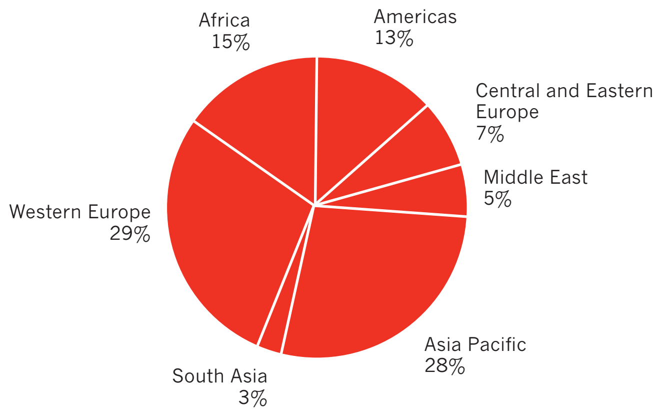


Figure 1.3: Respondents by region



2. Economic perceptions

The results of the second Global Economic Conditions Survey suggest that nearly two thirds (64%) of the finance professionals surveyed are ready to call the bottom of the global economic downturn, almost double the percentage that were willing to do so in early 2009 (35%). Our findings, however, reflect cautious relief rather than outright optimism. Most of those calling the bottom of the downturn expect the global economy to remain as it is for a while yet and, on balance, more respondents are expecting conditions to deteriorate further (27%) than to improve (7%).

Over the last quarter, forecasts of the recovery have moved forward by more than three months, favouring a relatively quick return to growth. More respondents now expect a recovery in twelve months (36%) than in two years (35%), which was the most common forecast three months ago. The results are broadly consistent with a recovery within the next 18 months, possibly before the end of last quarter of 2010.

Finance professionals, however, also point to the significant downside risks attached to such forecasts. One in ten respondents (10%) still expect the downturn to last three years or more. Particularly relevant are the predictions of public sector accountants, who have consistently forecast a longer downturn than other respondents. These respondents were twice as likely as others to predict a 3-year or longer downturn (20%) and much more likely to believe economic conditions are worsening (40% against 27%). It is very likely that these professionals are anticipating the drag imposed on economic growth by the financial austerity measures that are sure to follow in the medium term. Particularly optimistic were respondents from the larger accountancy practices, of whom none predicted a downturn longer than two years.

Figure 2.1 Assessment of economic trends.

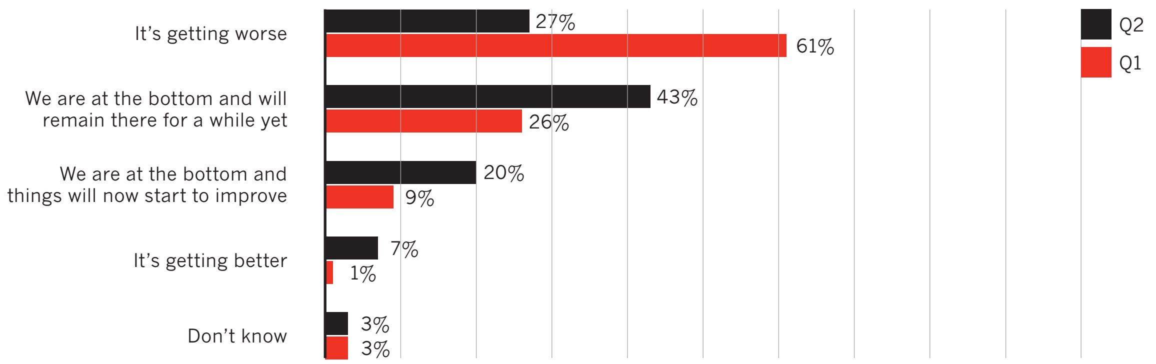
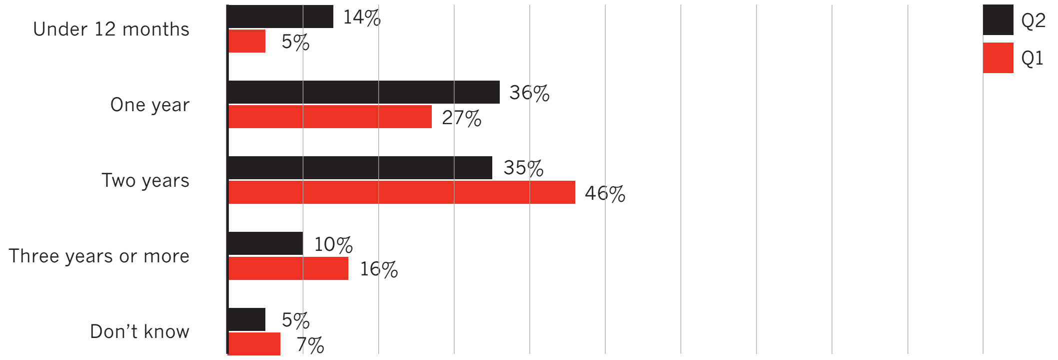


Figure 2.2 Forecasting the recovery



On a regional basis, Western European respondents were least likely to report perceptions of improving conditions, and offered some of the most pessimistic estimates of the length of the downturn – the most common response is still 2 years. African professionals were most likely to believe conditions were improving, but predicted a very anaemic recovery, as they also offered the longest predicted length of the downturn. Perceptions were perhaps most optimistic in the Asia-Pacific region, where respondents were slightly more likely to think the worst was behind them and were expecting a much shorter recovery.

Business confidence, while still falling, is now beginning to stabilise rapidly, with the largest share of respondents (39%) saying their organisations' prospects were unchanged throughout the second quarter of 2009. On balance, more respondents reported loss of confidence (34%) than increased confidence (27%), but perceptions have shifted substantially towards more balanced and milder outcomes. Incidence of extreme loss of confidence fell from 29% in the first quarter of 2009 to 8% in the second, while the incidence of mild confidence gains increased from 6% to 25%.

Loss of business confidence has come to a virtual halt in the Asia Pacific region – respondents reporting loss of confidence outnumbered those reporting gains by less than 1%, and also slowed substantially in Africa. Western European respondents are, on the other hand, losing confidence at nearly twice the average rate globally.

On a sector basis, respondents in large financial services firms and SMEs in the real economy recorded a small net gain in confidence[1], which is very encouraging. But professionals in large accountancy firms and the public sector recorded strong net losses of confidence.

Figure 2.3 Business confidence

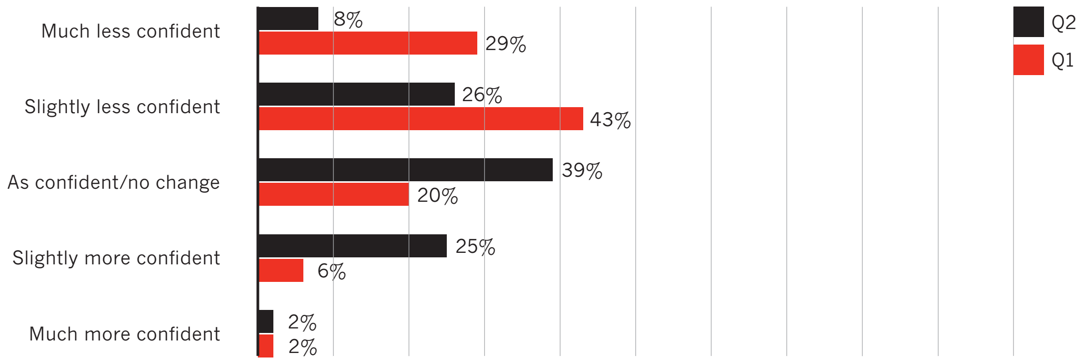
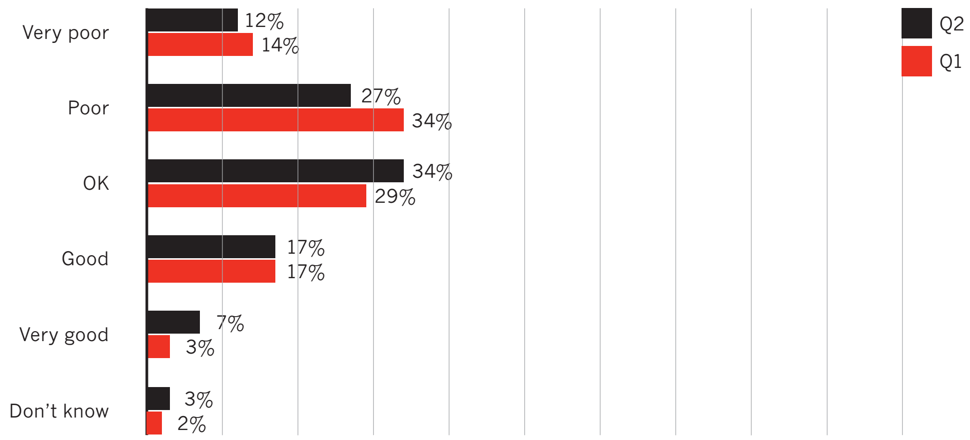


Figure 2.4 Rating of government reaction



1. Respondents reporting a loss of confidence were outnumbered by those reporting gains in confidence.

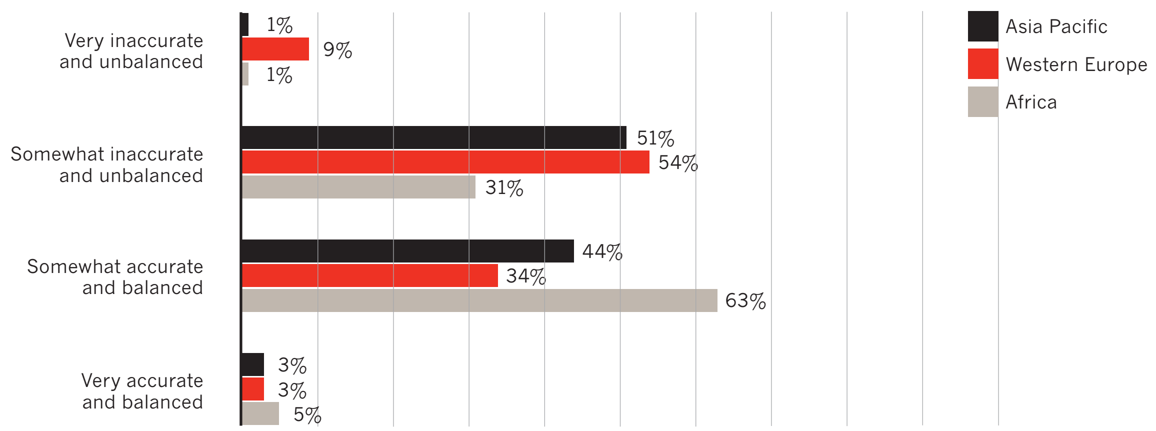
The first Global Economic Conditions Survey found that approval of governments' actions was instrumental to restoring faith in the global economy, as forecasts of the recovery correlated strongly with assessments of government reactions.[2] Perceptions of government have improved only marginally, with 24% of respondents rating their governments' reactions as good or very good, up from 20% in the first quarter. The median rating now appears to be 'OK'. This is not reassuring considering the sheer size of the fiscal and monetary stimulus applied throughout the world.

It is of course very likely that respondents are rating government responses for timeliness and efficiency rather than output, which could result in fairly average ratings for even the most massive intervention. Indeed, further analysis of verbatim responses to the second Global Economic Conditions Survey suggests that government action was rated negatively more often because it was judged as too slow or reactive (28%) than because it was seen as inappropriate (24%). In any case, government stimulus could well account for much of the recovery in confidence and optimism through indirect effects on demand or business cashflow that would be impossible to trace back to specific measures.

Governments in the Asia Pacific region ranked relatively high in satisfaction levels (3.2/5), whereas Western European governments performed comparatively poorly (2.4/5), and African governments scored slightly above the sample average (2.8/5). From a sector perspective, it is very encouraging that real-economy SMEs rated government highest (3.0/5), no doubt in response to concentrated support initiatives for SMEs around the world.

Finally, a question was introduced to the latest survey regarding the role of the mass media. In response to suggestions that sensationalist reporting has willed the economies of developed countries deeper into recession, respondents were asked to rate the media coverage of the economy for accuracy and balance. Overall, finance professionals were evenly split between those who thought coverage was accurate and balanced and those who did not. But a regional analysis reveals high levels of dissatisfaction with the role of the media in Western Europe, where nearly two-thirds of respondents (63%) thought coverage was not particularly accurate or balanced, and higher levels of satisfaction in African countries (68% rating as accurate and balanced).

Figure 2.5 Assessment of media coverage by region



2. *ACCA Global Economic Conditions Survey Benchmark Report: Q1, 2009*. See also 'In search of green shoots: insights from the Global Economic Conditions Survey', ACCA Technical Blogger, 28 April 2009.

3. Trading conditions

Trading conditions have in many ways remained virtually unchanged in the past three months, easing slightly in some areas as the initial fallout from the financial crisis gave way to a more mature, demand-driven downturn.

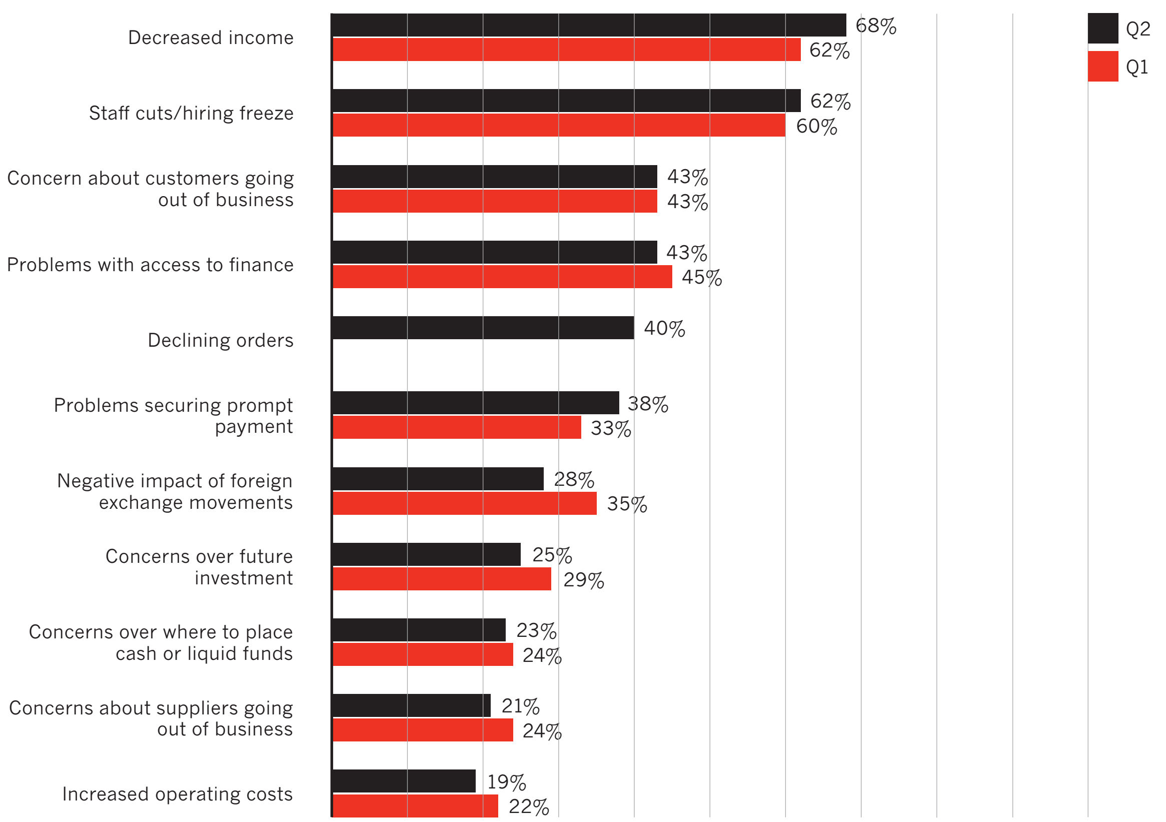
Nearly two-thirds (68%) of all respondents saw revenues fall in their organisations or clients and a similar number (62%) witnessed staff cuts and hiring freezes. Concerns about customers going out of business remain high, with 43% of respondents affected either directly or through their clients. Confirming the findings of the benchmark study, access to finance has once again emerged far from the top of respondents' concerns, but is easily as severe a problem as troubled customers, with another 43% of respondents affected.

Apart from interest rate fluctuations, which have become less severe in the second quarter (incidence fell from 38% to 26%), most negative business impacts have receded only marginally. Some indicators have, in fact, deteriorated slightly: of these the incidence of late payment (38%) is probably the most troubling. And while fewer respondents indicate that they expect their organisations' income to fall over the next 3 months, these still outnumber those forecasting an increase by more than two to one (42% against 18%).

Because of the credit squeeze clients have downsized their activities. This results in asking for reduced fees and refusing to pay any increase. The payment of dues is longer than usual too. Referral work from other countries is lower than last year.

Director, SMP, United Arab Emirates

Figure 3.1. Trading conditions



There is of course a significant degree of variation among sectors, but respondents in SMPs appear to be uniquely exposed, both directly and through their clients, to some of the worst effects of the downturn on the real economy. They were much more likely than respondents in any other sector to report problems with late payment, as well as customers and suppliers going out of business, and were also more likely to be dealing with the effects of falling income and poor access to finance, whether on clients' businesses or their own.

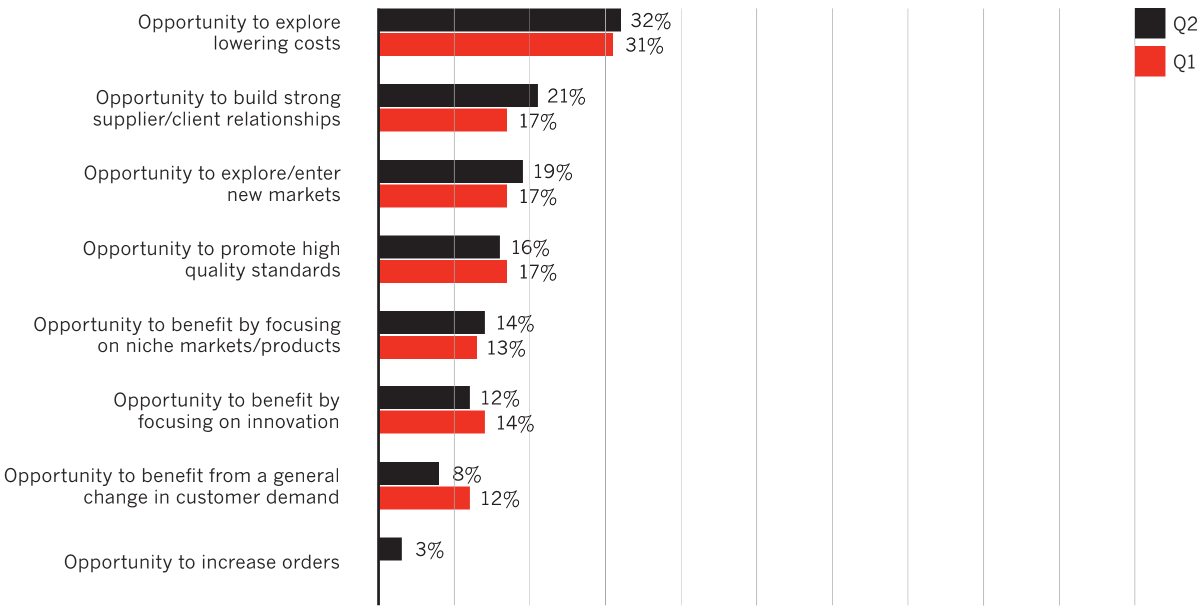
Equally important are variations among regions. In Africa, falling income has now become the top issue for organisations and continuing exchange rate volatility is feeding into increased operating costs; in the Asia-Pacific region, dramatically falling orders are causing widespread staff cuts and jeopardising future investment; and in Western Europe, cashflow problems are manifesting themselves as weaknesses in organisations' supply chains.

While respondents to the latest Global Economic Conditions survey continued to see opportunities arising from the economic downturn, the results were remarkable in their similarity with those of the first survey. Finance professionals are still citing cost-cutting as the most likely area of opportunity (32%), followed by closer relationships along the value chain (21%) and the exploration of new markets (19%). Significantly, marginally fewer businesses appear to be exploiting changes in customer behaviour and preferences (9%), even though such opportunities were found to be closely correlated with rising business confidence in the first Global Economic Conditions Survey.[3]

[There has been a] sudden drop in demand for goods... as much as 70%-80% compared to a year ago. [This is] forcing the company to downsize and to cut head count. If there's no more business or sales volumes drops further, the factory will have to close.

Senior Manager, large corporate, Malaysia

Figure 3.2. Opportunities emerging from the downturn



3. 'In search of green shoots: insights from the Global Economic Conditions Survey', ACCA Technical Blogger, 28 April 2009.

4. Impact on finance

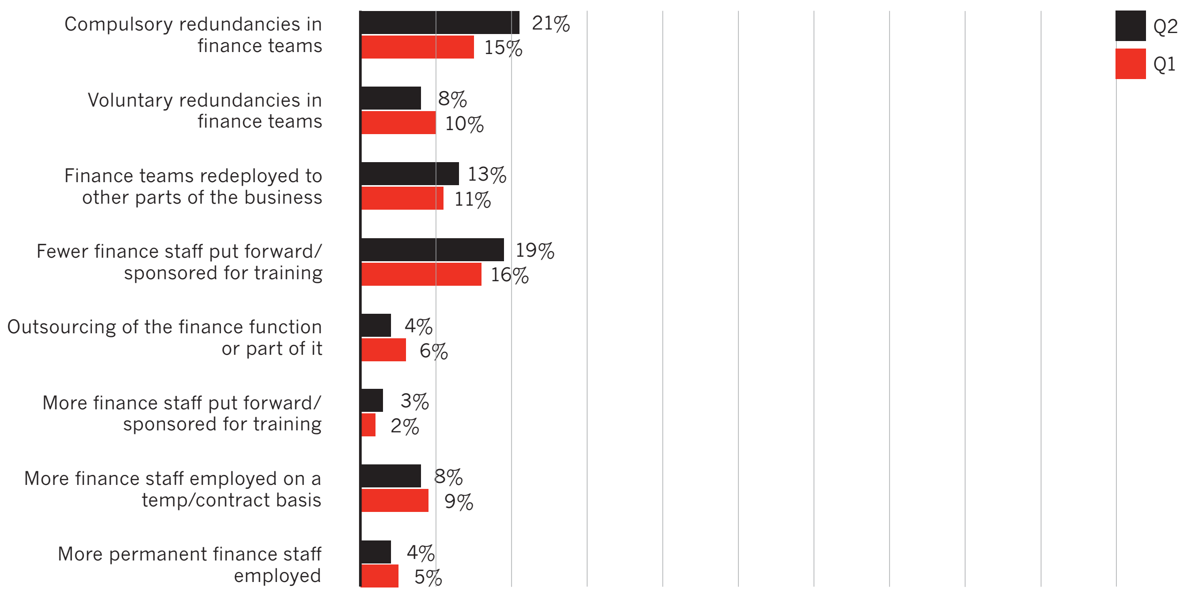
The pace of redundancies has picked up in finance departments around the world, with compulsory redundancies increasing in frequency since the first quarter (21% against 15%) even though voluntary ones did not (8% against 10%). Marginally more organisations are also reported to have sought savings by reducing the financial training on offer (19% against 16%). Compulsory redundancies have been most common in larger accountancy firms (37%)[4], while SMEs (16%), SMPs (13%), and especially the public sector (4%) have held on to more of their finance staff.

Encouragingly, finance professionals believe that redundancies and training cuts are now much closer to their peak utilisation than any other cost-cutting measure. Least utilised in this regard is the option of outsourcing, which could yet resurface in the near future.[5]

We lost lots of our valuable clients in financial services such as investment funds, [which] created uncertainty amongst the employees. Uncertain economic conditions push employers to use [a] more strict approach while evaluating employee performance. That […] signals to employees [that the] company don't want them any more. This has led many employees [to resign] without having another job offer.

Former Big 4 Auditor, Pakistan

Figure 4.1. Impact on finance



4. This includes all non-SMP respondents in public practice.

5. The rate of utilisation is calculated roughly by dividing the percentage of respondents reporting that each type of cost-cutting measure has been employed in their organisation by the number of respondents reporting either that it has been, or may in the future be, used. By this measure, utilisation rates of compulsory redundancies and training cuts currently stand at 45% and 44% respectively, whereas utilisation of outsourcing stands at 17%.

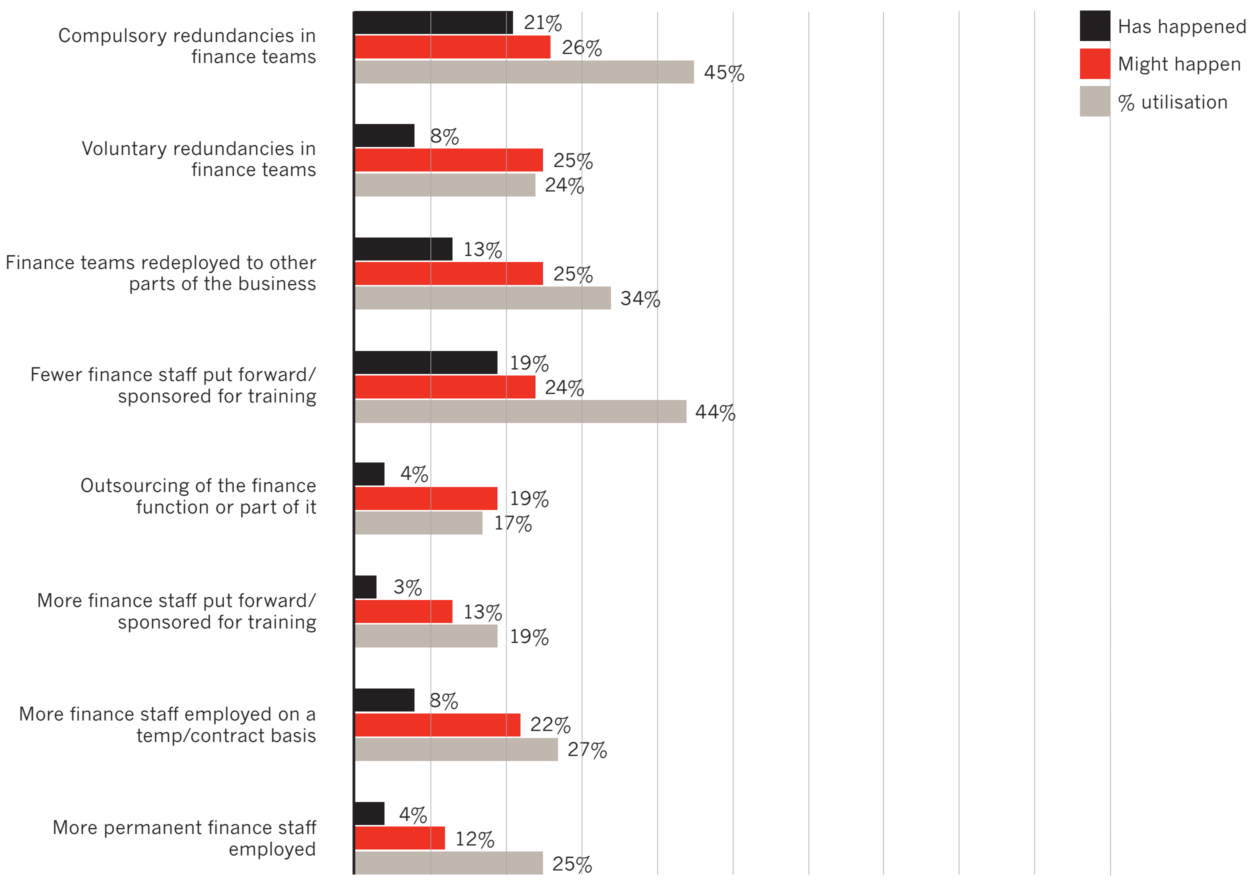
The recession causes sales to decline resulting in cost cutting measures which cause the company to operate with a very tight budget with the same number of headcounts. Bosses are trying to find ways to cut cost resulting in a very tense working environment.

Internal auditor, medium-sized corporate, Singapore

We are now under redundancy notice while our office is closing down and relocating to our sister company, in an effort to reduce costs and improve profits for our parent.

Manager, small corporate, UK

Figure 4.2 Real v. potential utilisation



5. Green shoots or red herrings?

It is too early to say whether or not we are seeing signs of a true recovery or simply a glimpse of false hope in what will eventually be a much longer downturn.

In many ways, the return of optimism and confidence is puzzling, as trading conditions have improved only marginally, if at all. Both incomes and headcount are falling steadily at most organisations, perhaps faster than in early 2009. Finally, investment in staff and capital is still falling at the same pace as it did during early 2009. It is hard to reconcile these facts with the more optimistic forecasts recorded by the latest survey of ACCA members.

There are, however, two relatively simple ways of testing for whether some real qualitative change has taken place in the perceptions of finance professionals, towards more rational and measured responses.

First, there is some evidence that optimism is slowly becoming disentangled from the work of governments and that respondents are increasingly looking to the markets, rather than the government, for signs of a recovery.[6] The sense, whether justified or not, that the global economy is on auto-pilot, is characteristic of 'normal' economic conditions and its return suggests that the mood among respondents is truly shifting.

Second, confidence is once again tied to respondents' economic forecasts, a relationship that appeared to have been disrupted in early 2009 as panic swept over the world. In the first survey, respondents were almost as likely to have experienced loss of confidence in their organisations regardless of how long they thought the economic downturn would last. This suggests either a measure of irrationality or severe cashflow problems. In the second quarter, a clear, positive relationship emerged between confidence and economic forecasts, even though cashflow-related business conditions have not improved significantly (see Section 3). The logical conclusion is that a measure of panic that still lingered earlier this year has now dissipated. Future surveys will investigate whether such shifts in perceptions are in fact forward indicators of real economic trends.

6. A simple regression analysis, in which the share of respondents expecting a recovery within 12 months is the determinant and government ratings are the independent variable, reveals that both the slope and the coefficient of determination (R2) are smaller in Q2 than in Q1. These findings were further replicated in an ordinal regression analysis exploring multiple determinants of the forecast length of the recovery. Further analysis incorporating data from both surveys will establish whether this shift is statistically significant.

Figure 5.1. Government approval and economic optimism

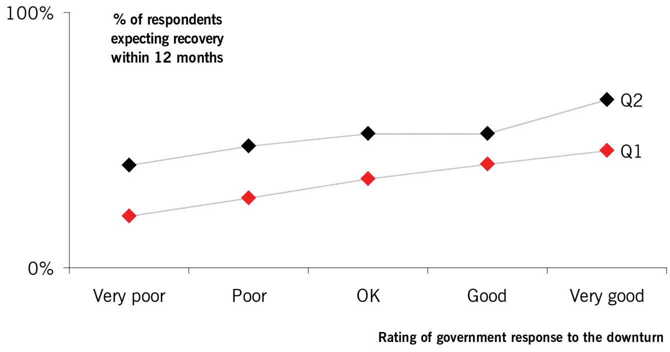
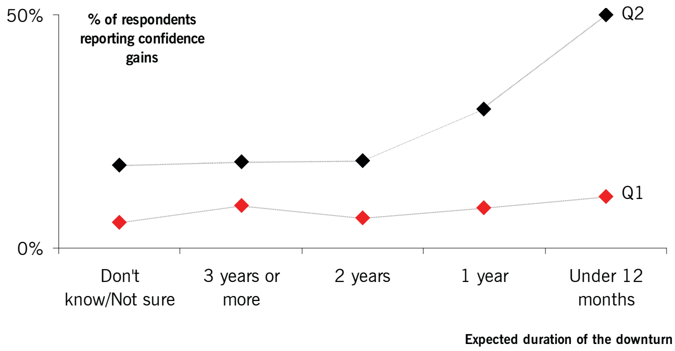


Figure 5.2. Respondents' forecasts and confidence



The government has taken the right attitude of 'no panic'. This has provided confidence. And they have taken the right economic measures to keep the economy growing.

Director, Financial services, Malaysia

The government has focused first and foremost on restoring financial stability to prevent wider spill-out of the financial crisis. Second, the government has correctly focused on boosting demand and especially in sectors expected to be drivers of future growth.

Manager, Corporate, USA

6. A new world order

It is evident from the previous sections that a growing number of finance professionals are expecting a recovery sooner than previously thought possible. With this in mind, it is not premature to consider what the world will look like as it emerges from the economic downturn. Although responses to this question varied substantially, five dominant themes emerged.

Regulation

More than half of all respondents (54%) mentioned stricter and more pervasive regulation as a key characteristic of the global economy following the recovery. Many respondents stressed the need for a higher quality of regulation than the regime that preceded the downturn, but relatively few expected this to materialise. While financial institutions were expected to bear the brunt of this new regulatory offensive, some saw a more general shift in attitudes towards government intervention.

Credit and Finance

A significant number (22%) of respondents noted that the amount of lending to businesses, households and governments had reached unsustainable levels in the run-up to the financial crisis of 2008. This will no longer be available as the global economy recovers – restricting the pace of the recovery but also restoring sanity to economic decisions.

Efficiency

A number of respondents (14%) believe that harsh economic conditions will force organisations to look inward in search of cost savings and more efficient ways of doing business. Comments were sometimes phrased in Darwinian terms – implying that some of the business models established in better days may not survive this new, leaner environment.

Risk Management and Corporate Governance

ACCA has argued for some time that poor governance and a limited understanding of risk was the leading cause of the financial crisis of 2008. A number of members around the world (14%) are predicting that stronger internal controls will now come to complement tighter regulation, especially in the financial services industry.

Consumer behaviour

At the heart of the economic downturn is a fundamental change in consumer behaviour brought about by the shortage of credit, a loss of wealth among households and increased uncertainty about their future employment and income. Some respondents (14%) predict that this change in behaviour will become entrenched, and consumers, especially in developed countries, will become cautious net savers.

[We'll see] more stringent audits and controls on financial firms. And perhaps a revamp of the current oversight system. Again.

Internal auditor, large corporate, Scotland

[There will be a] return to moderate lending restrictions on personal debt as opposed the light restrictions prior to the credit crunch.

Director, small to medium sized corporate firm, Australia

The strong and healthy will survive. The weak will disappear. State aids will be lost with almost no effect at all.

Manager, large financial services organisation, Czech Republic

7. Conclusions

ACCA is grateful to the more than 1,000 members who have so far participated in the Global Economic Conditions Survey and shared their expert views of economic developments in their countries and industries.

The second in this series of surveys offers some encouraging news of renewed confidence and optimism, but little evidence of recovery in the fundamentals. The third quarter of 2009 could very well reveal the final shape of the downturn.

At the time of this writing, there are already numerous and mixed signals. Some economic data suggest that the surge in confidence in the second quarter of 2009 may have been premature while other indicators continue to point to a slow recovery. A number of financial services giants have returned to profitability and have started to buy themselves free from government interference. Meanwhile, the political agenda is beginning to shift from saving the global economy to managing the fiscal and regulatory legacy of the economic downturn.

The next Global Economic Conditions Survey will look for real changes in trading conditions. It will examine in more detail whether the private sector is able to support its new-found confidence with investment in people and capital, and whether finance professionals in the public sector are justified in their pessimistic views of the global economy.

The Global Economic Conditions reports are part of a growing body of relevant research and policy publications. In June, ACCA set out its proposals for financial regulation in the policy paper, *The Future of Financial Regulation* and July saw the publication of the research report, *The CFO's New Environment*, which discussed the changing face of governance and risk management during challenging economic conditions. In August, ACCA published its position paper, *Complacency vs. Reform*, addressing the agenda of September's G20 Summit. This, in turn, builds on the recommendations ACCA made ahead of the London G20 summit in April.

All of this work is based on direct commentary and input from senior representatives of regulators, financial markets and business. It is ACCA's contribution to the wide stakeholder engagement and consultation, which is needed to take forward the global agenda.

All reports can be found at **www.accaglobal.com/economy**

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