

Global Economic Conditions Survey Report: Q3, 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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ABOUT THE GLOBAL ECONOMIC CONDITIONS SURVEY

The third ACCA Global Economic Conditions Survey was carried out between 30 July and 19 August 2009 and attracted 1,200 responses from ACCA members in 92 jurisdictions around the world. As ever, we are grateful to our members for their time and insights, but even more so to those who took the Q3 survey – which is by far the largest Global Economic Conditions Survey to date.

In acknowledgment of the heated debate regarding the strength of the economic recovery, this latest survey examined in more detail the risk factors affecting the global economic outlook – focusing on government spending and business investment. The results are at once encouraging and sobering.

RETHINKING THE SHAPE OF THE RECOVERY

While finance professionals are increasingly coming to believe that the global economy is past the worst, their views suggest that the recovery will be somewhat weaker and more protracted than previously thought.

An increasing percentage of members (34%) now believe that global economic conditions are either about to improve or already improving. However, the emerging consensus (expressed by 44% of respondents) appears to be that current conditions mark the bottom of the downturn and will persist for some time. The projected timing of the recovery has only inched closer since late May, less even than the timing of the surveys would allow for.

NOT SO FAST

Business confidence continued to recover in the third quarter of 2009, although it has yet to cross over into positive territory. Almost one third (31%) of respondents reported gains in confidence over the summer, while a marginally higher number (33%) reported losses. As ACCA warned in August¹, the surge in confidence between the first and second quarters of 2009 had more to do with panic receding than with improved fundamentals. In light of these earlier findings, it is not surprising that confidence is now recovering more slowly than in previous quarters.

Business incomes are still falling, albeit at a slower rate. Many respondents (39%) are reporting that their organisations' income is unlikely to change over the next 3 months, but an equal number are anticipating further losses of income, while only 22% have seen their prospects improve. It is clear that, in the current environment, rising income expectations lag gains in confidence by some time.

MORE PAIN, MORE GAIN

Slowing confidence gains make sense in terms of the fundamentals. Business incomes continued to decrease in the third quarter of 2009, leading to a rise in late payment as well as supplier and customer bankruptcies. As a result of these negative developments, financing problems are now slightly more acute, reversing modest gains in the previous quarter. Even operating costs, which had been compressed by falling wages and commodity prices at the lowest points of the downturn, are rising slowly but steadily. Only the negative impact of exchange rate fluctuations has receded marginally.

As a result of these negative developments, investment in staff fell at an accelerated rate in the third quarter and investment in capital projects, which had previously shown signs of stabilising, seems to be weakening further. The investment environment has deteriorated sharply in the past year, with 79% of respondents citing poor access to finance as a reason and 52% blaming a lack of investment opportunities. Importantly, there are signs of market failure as more than a third of respondents (37%) stated that financing problems are affecting the investment environment even though profitable opportunities are no fewer than before.

Predictably, most of the new opportunities respondents saw for their organisations still relate to cost-cutting. But business opportunities in general are emerging faster than in previous quarters – especially outward-looking opportunities such as exploring new markets or market niches and engaging with suppliers and customers. These are very encouraging signs given the fact that trading conditions are still deteriorating, and could account for a good deal of the increase in business confidence.

1. *Global Economic Conditions Survey Report: Q2 2009*, ACCA, August 2009.

ASIA AND AFRICA TO THE RESCUE

While there is little comfort in the headline findings of the third Global Economic Conditions Survey, it is important to appreciate that regional variations are substantial. Respondents in the Asia-Pacific region, Africa and, to some extent, Central and Eastern Europe, are reporting much higher levels of business confidence and are more optimistic than their counterparts in Western Europe and the Americas.

Particularly noteworthy is the fact that the Asia Pacific region is in positive territory on all of our major indices. This includes income expectations, which appear to have lagged the surge in business confidence by no more than one quarter. One of our key questions following previous surveys was whether these economies would remain strong enough to pull the rest of the world out of recession. It is now increasingly likely that they will.

IS COMPLACENCY SETTING IN?

Our previous surveys have identified confidence in government interventions as one of the leading sources of optimism about the global economy. While panic continued to drain out of the global economy throughout the third quarter of 2009, the role of governments is still pronounced – and crucial.

So far, the most successful government interventions have revolved around increasing public sector spending and supporting the financial services sector. On the other hand, interventions in consumer finance markets and changes to individual tax regimes were seen as less successful, or even counter-productive.

Overall, approval of government measures fell over the summer to levels last seen in early 2009, with 46% of respondents rating them as ‘poor’ or ‘very poor’ (up from 39% in the second quarter). Following unprecedented levels of support over in the last six months, governments may now be scaling back their contributions, either out of confidence in the state of their national economies or due to fiscal constraints. While it is not clear to what extent this reversal has contributed to the only marginal improvement in business confidence and economic optimism, complacency certainly poses a serious threat to the recovery, as ACCA has warned world leaders ahead of September’s G20 summit.²

2. *Complacency vs. Reform*, Position paper on the G20 summit September, ACCA, 2009.

FINDING THE RIGHT LEVERS

Government spending is and will remain a contentious issue for the many countries whose public finances were battered by the financial crisis and the subsequent economic downturn. Over the next five years, members were split as to the most likely direction of travel. The most common response (27%) was that public spending would fall significantly, and more of our members thought spending would fall (48%) than rise (40%). But these figures conceal substantial regional variations, with 77% of respondents in Africa and 60% in the Asia-Pacific region expecting increases in spending, while 68% of Western European respondents expected spending cuts. Western Europe was the only region in which public spending was, on balance, expected to fall over the next five years.

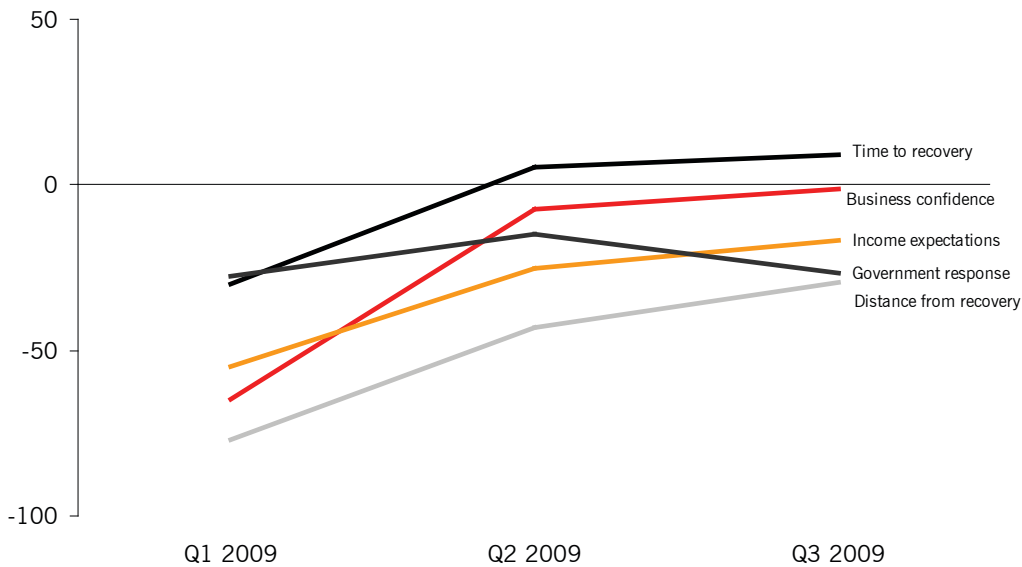
Typically, our members expect their governments to spend more or less correctly under the severe constraints imposed by economic conditions. However, about one third (30%) expect significant deviations from what they see as the 'correct' level of spending. Respondents in Central and Eastern Europe, the Americas and Africa were more likely to expect an overspend, while those in the Asia-Pacific region and Western Europe were more likely to expect an underspend.

These findings have severe implications for the shape and strength of the recovery. Large departures from the 'correct' level of spending were associated with expectations of a significantly longer downturn *regardless* of which direction they were in.

CONCLUSIONS

The findings of the third Global Economic Conditions Survey vindicate ACCA's warnings against complacency. Trading conditions are still deteriorating and reliable growth is unlikely to return before late 2010. With the global economic recovery still looking fragile, future surveys will consider further risks to the economic outlook and look for signs of consistent strength.

Figure 1: The global economy – main indices



Key to the indices

Time to recovery: The % balance of respondents saying that the recovery is less than two years away, minus those saying that it is 2, 3 or more years away.

Business confidence: The % balance of respondents saying that they have gained confidence in their organisations during the last period, minus those saying they have lost confidence in their organisations.

Income expectations: The % balance of respondents whose expectations of their organisation’s income for the next period have improved, minus those whose expectations have deteriorated.

Distance from recovery: The % balance of respondents saying that the global economy is at the bottom and about to improve or already improving, minus those saying that it is at the bottom and will stay there or getting worse.

Government response: The % balance of respondents rating the response of their governments as ‘Good’ or ‘Very Good’ minus those whose rating was ‘Poor’ or ‘Very Poor’.

Figure 2: Regional indices, distance from recovery

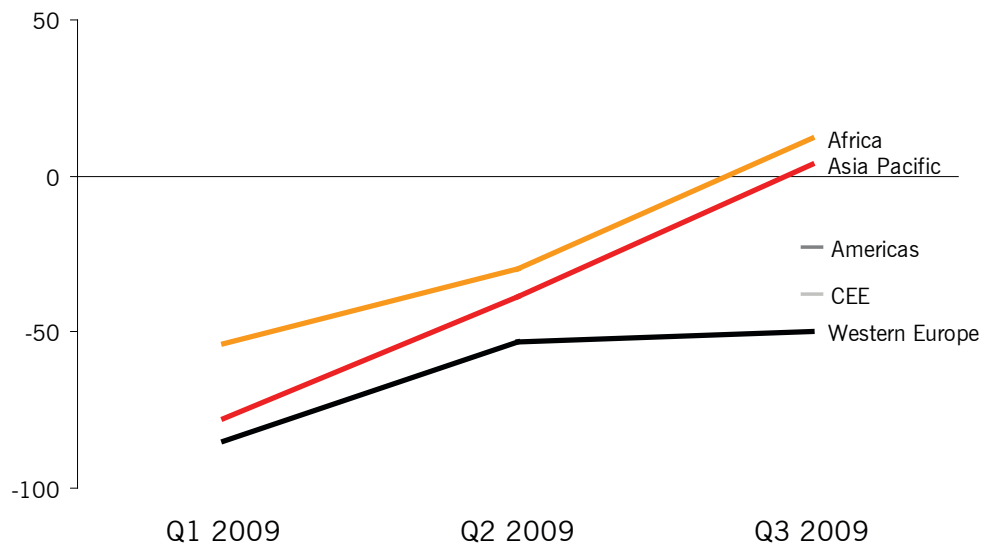


Figure 3: Regional indices, time to recovery

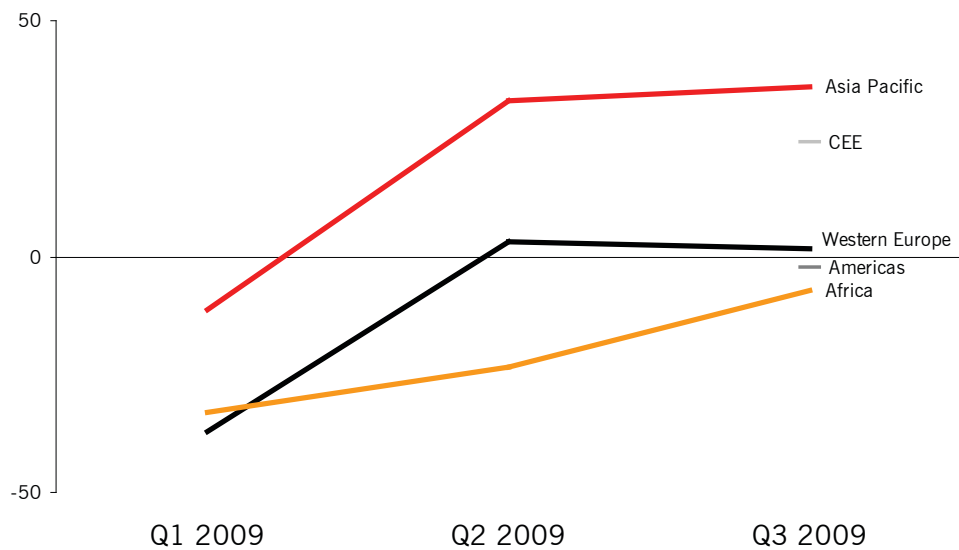


Figure 4: Regional indices, business confidence

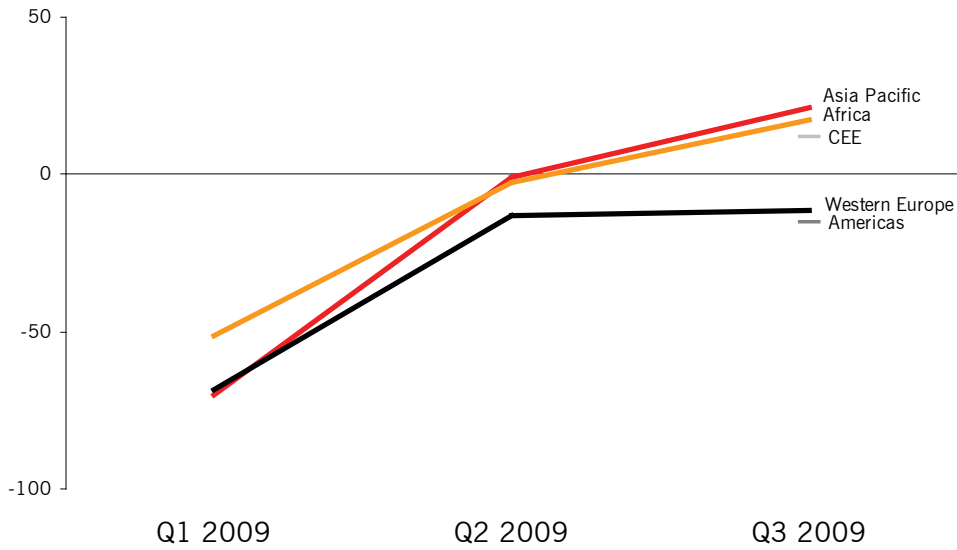
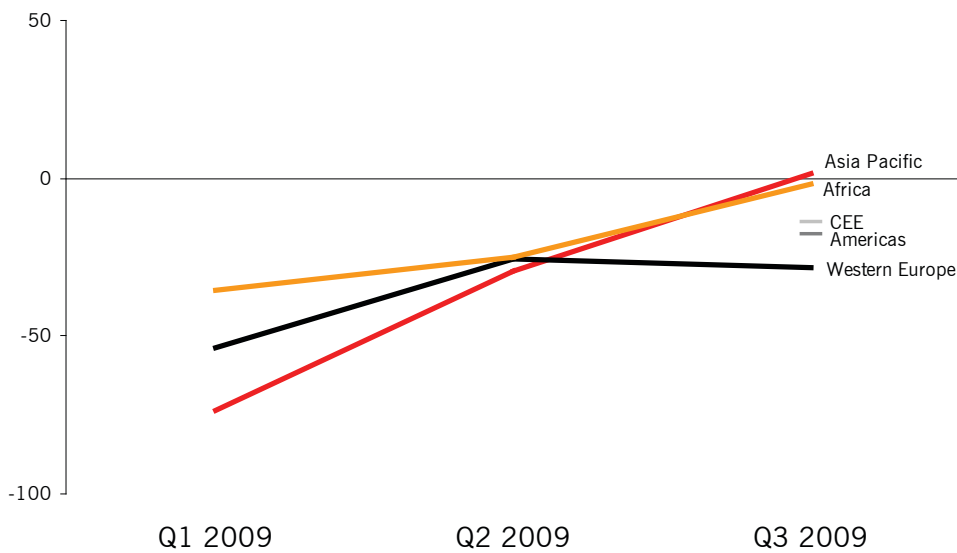


Figure 5: Regional indices, income expectations



ACCA AND THE GLOBAL ECONOMY

THE GLOBAL ECONOMY – INSIGHT AND ANALYSIS

Global economic conditions continue to dominate business life. They are at the top of the world's political agenda, and updates and debates on economic issues are almost constantly the centre of media attention. Economic downturns now exist in many countries, and it is far from clear how long the downward trends will continue before economic growth is seen again. Nor is it clear what the impact will be in countries and regions around the world, although it is important to recognise that different markets will be affected in different ways.

ACCA is a prominent voice both on the causes of the credit crunch and on what needs to be done to turn round the global economy. It has already published papers outlining its response to the G20's public agenda and analysis of the outlook for regulation of financial markets. It has also considered issues in accounting, such as fair value and the role of international accounting standards in supporting transparent business practices.

ACCA aims 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 its members in times of challenge.

ACCOUNTANTS FOR BUSINESS

ACCA believes that accountants add considerable value to business by driving down costs and identifying drivers of value and profitability – and never more so than in the current environment. They are instrumental in obtaining access to finance and strengthening the balance sheet. Accountants are also essential to supporting the small business sector, estimated by the OECD to represent 95% of all enterprises. SMEs make a positive contribution to economic growth, requiring well-rounded finance managers and advisers to ensure small businesses survive and grow.

RESEARCH

ACCA is conducting a range of research projects to add to understanding of the effect of the economic conditions around the world, and ways in which the impact can be managed. The objectives of the research include:

- understanding trends and developments, including perceptions of changing prospects and opportunities in the current economic climate
- identifying areas of concern to members and assessing support and services which ACCA can offer to assist members in difficult economic circumstances
- championing the role of the accountant in business – especially the CFO – and illuminating areas of best practice which will help the companies where they work to add value to business strategy and operations, and to help their employers grow profitable businesses in difficult trading circumstances
- identifying ways in which accountants can add value as advisors, and
- understanding learning points and indicators for moving towards a refreshed global economy.

THE GLOBAL ECONOMY

Perhaps at the heart of the current debate on the economic environment is: where next for the global economy? As the G20 countries formulate strategy to promote stability and stimulate growth, the interconnectedness of our economies, and how they are managed and regulated, is firmly in the spotlight. The development of the global accountancy profession came out of, and has contributed to, the development of the global economy, with the aim of promoting common standards for accounting and auditing, and transparency in financial reporting. As a key stakeholder in the debate, ACCA will seek to address the challenges posed for the global economy, not least the need to ensure appropriate regulation, which favours fair competition, capital investment and economic growth; and the removal of barriers inhibiting the lifeblood of our economies – entrepreneurship and innovation.

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