

ACCOUNTANTS FOR BUSINESS

Global economic conditions survey report: Q2, 2011

ABOUT ACCA

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

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

We support our 147,000 members and 424,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

ABOUT ACCOUNTANTS FOR BUSINESS

ACCA's global programme, Accountants for Business, champions the role of finance professionals in all sectors as true value creators in organisations. Through people, process and professionalism, accountants are central to great performance. They shape business strategy through a deep understanding of financial drivers and seek opportunities for long-term success. By focusing on the critical role professional accountants play in economies at all stages of development around the world, and in diverse organisations, ACCA seeks to highlight and enhance the role the accountancy profession plays in supporting a healthy global economy.

www.accaglobal.com/accountants_business

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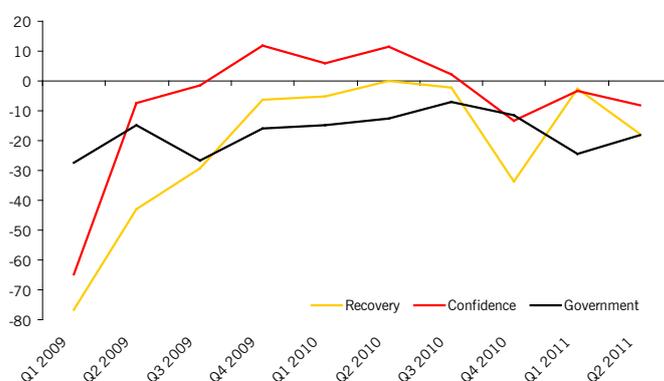
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SLUGGISH GROWTH CONTINUES AS INDICES INCH CLOSER TO DANGER ZONE

Finance professionals' confidence in the prospects of their own organisations fell for the third consecutive quarter in the three months to June, and their responses suggest the recovery is still stuck in reverse (see Figure 1). Of the 2,186 ACCA members surveyed between 16 May and 6 June, only 26% reported confidence gains, down from 28% three months ago, and 57% believe that economic conditions are either deteriorating or stagnating, up from 51%. Despite these disappointing trends, confidence figures are not yet suggesting a renewed downturn,¹ and government approval has remained low but stable.

Figure 1: Global economic conditions: main indicators



Key to the indices

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.

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'.

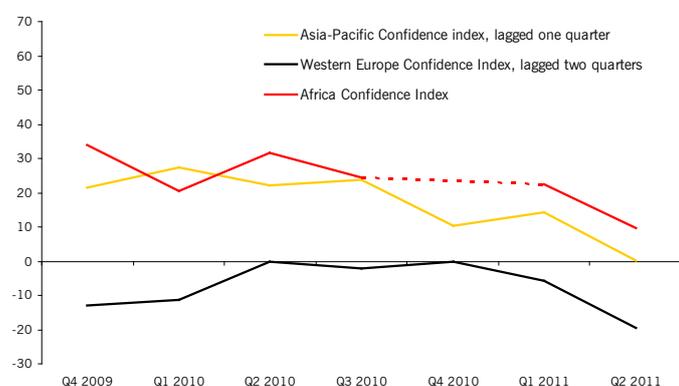
1. As a rule of thumb, a global confidence reading below -13.7 or an OECD confidence reading of less than -9.1 means the output of OECD members is no longer growing, which is still consistent with some positive growth globally. The Q2 2011 reading is consistent with 0.2% – 0.4% growth in the bloc of developed nations.

ASIA-PACIFIC, AFRICA HIT CONFIDENCE LOW ON JAPAN FALLOUT, SLOW DEMAND

For the last two years, professionals in Africa and the Asia-Pacific region have been consistently more optimistic than their colleagues elsewhere about the state of the economic recovery, and this has translated, for the most part, into high levels of confidence in their own organisations. This time around, however, confidence in both of the leading regions has come back surprisingly low, with Asia-Pacific recording a net loss of confidence for the first time in two years. Hong Kong and Malaysia seem to be particularly affected, while Singapore has bucked the trend by recording further confidence gains.

While the gloom in the Far East must, to some extent, reflect the fallout from the disaster in Japan, flagging confidence in Africa is mostly a lagged effect of the slowdown elsewhere. As Figure 2 shows, the impact of a drop in activity in OECD countries has for the last few months been trickling down the supply chain, first to the Asia-Pacific region and then to Africa.

Figure 2: Transmission of the downturn

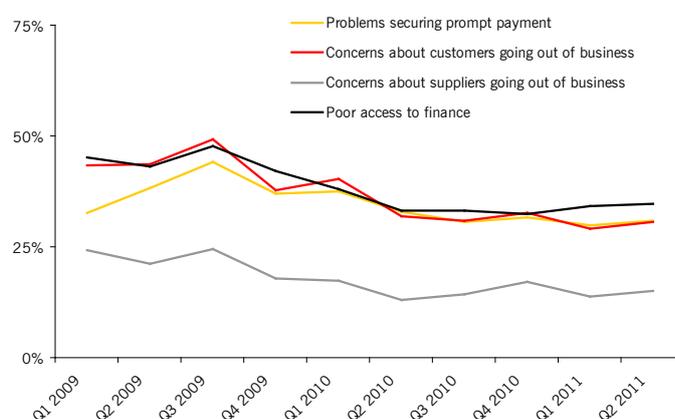


INVESTMENT HOLDS DESPITE TIGHT CASH AND LACK OF OPPORTUNITIES

Access to finance has been tightening globally for the past six months, and this appears to be the case for both growth capital and short-term liquidity (Figure 3). This, combined with strong inflationary pressures (see below), now appears to be leading to an increase in the number of respondents who fear that customers (31%) or suppliers (15%) might go out of business, as well as those reporting problems with late payment (31%). However, unlike the previous quarter, most of the pressure on access to finance appears to be concentrated on Asia-Pacific and the Middle East.

Under these challenging conditions, profitable value-added opportunities of most types have become scarcer and the investment environment has deteriorated slightly, especially in terms of financing and business support (Figure 5). Still, investment itself has remained flat and the outlook for employment and investment in staff has even improved slightly. This is almost certainly related to the slow recovery in new orders (see Figure 6).²

Figure 3: Finance and cashflow challenges



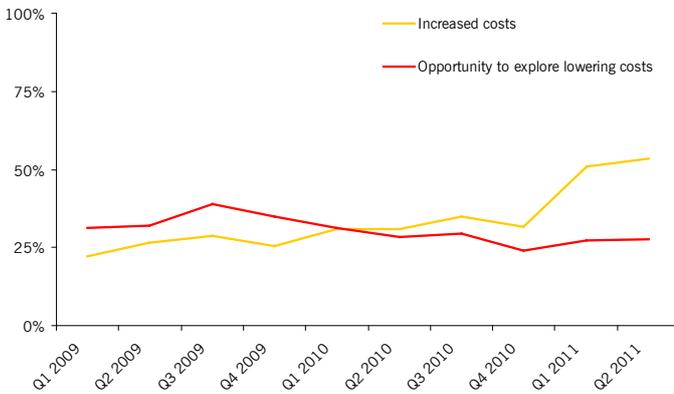
2. The investment indices for capital and staff are calculated as balances between those respondents that have seen an increase and decrease in investment, while the index for orders is calculated as the balance between those that have seen orders fall and those that see opportunities to increase orders in the short term.

BUSINESSES STRUGGLING TO KEEP UP WITH INFLATION

Although the explosion in operating costs recorded in the first quarter of 2011 has not been repeated in the last three months, the share of respondents reporting further rises has increased once again, from 51% to 54%, which is almost exactly twice the percentage mentioning inflation two years ago, in Q2, 2009 (Figure 4).

Nor is this problem confined to the fastest-growing economies. While Malaysia and Pakistan are leading the inflation league table, rising costs were also cited by 45% of respondents in Western Europe, which still languishes at the bottom of the ranking in terms of business confidence and economic optimism. As Figure 7 shows, business are becoming increasingly unable to respond to this challenge through cost-cutting – which is by now a well-established trend.

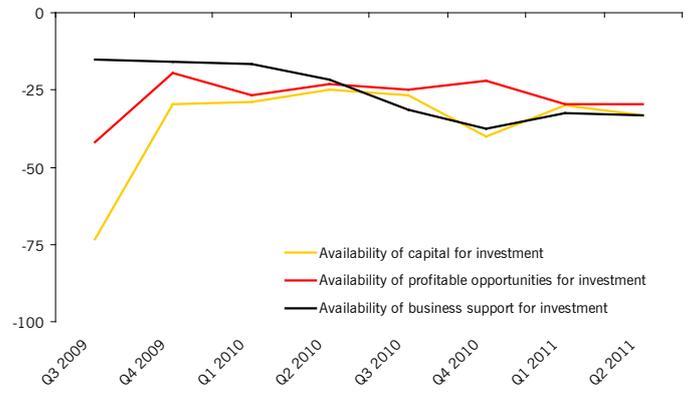
Figure 4: Coping with inflation



FISCAL POLICY BALANCING ACT JUGGLES DEBT, INFLATION AND GROWTH

While mentions of fiscal policy in the news might appear to be dominated by the latest on the US debt ceiling or fiscal entrenchment in Europe, accountants in the rest of the world are expecting government spending to grow substantially over the next five years. Spending expectations are particularly high in Africa, where more than half of the sample (54%) expected spending to 'increase significantly' while Asia-Pacific and South Asia follow with a majority of respondents expecting and increase. Even in Western Europe,³ the worst of the expectations regarding public spending and austerity appear to have become embedded during the third quarter of 2010, and expectations for medium-term spending have since become steadily more optimistic (Figure 8).

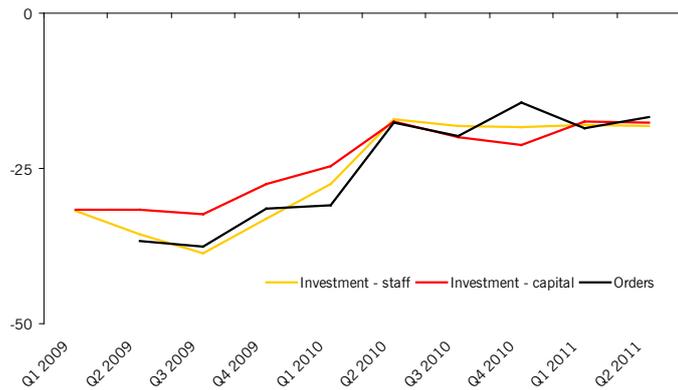
Figure 5: Investment environment indices



3. Note that the survey considers Portugal, Ireland, Italy, Greece and Spain to be part of Western Europe

Governments are constrained in their spending by the need to keep inflation and public debt levels in check. While about 30% of respondents expect their governments to get spending decisions right in the medium-term, there are also those who expect dangerous levels of over- or under-spending⁴ and this group has been growing every quarter since late 2009; they currently make up 16.5% of the total (Figure 9). Of ACCA's major markets, Pakistan and Malaysia have consistently faced the most challenging fiscal conditions, with a large share of respondents expecting large deviations on either side.

Figure 6: Investment environment indices



4. Respondents to the survey are not asked directly whether they think governments will get spending wrong. Instead they are asked how they expect the level of public spending to change over the next five years and how they would like for it to change. Both questions are coded as five-point scales (from 'rise significantly' to 'fall significantly') and the difference between what Government 'will' and 'should' do is recorded as expected over- or under-spend. Only 'large' and 'extreme' deviations (>+2 or < -2) are interpreted as dangerous.

Figure 7: Summary of business opportunities as reported by respondents

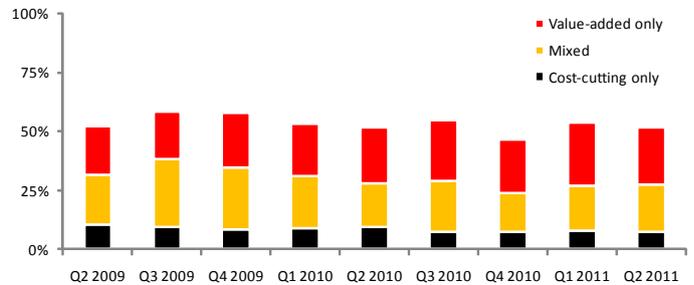


Figure 8: Trends in medium-term government spending (balances)

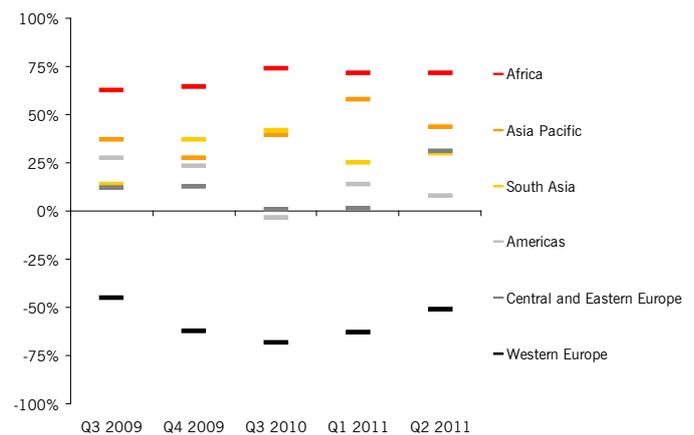


Figure 9: Risks in medium-term fiscal policy

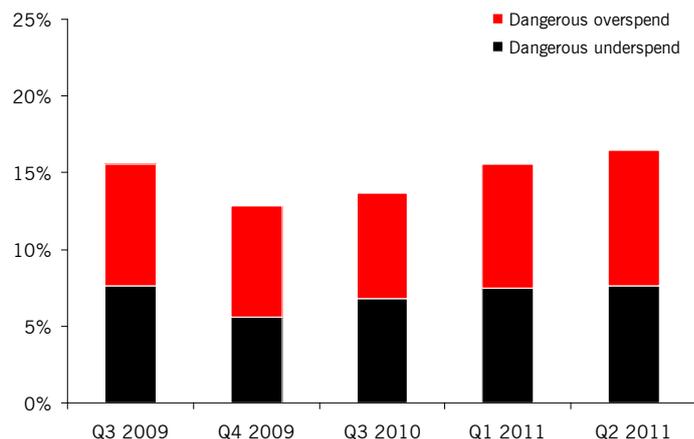


Table 1: Main indices in selected markets, by region and by OECD member status (Q2, 2011).

	OECD		Regions							Selected countries / jurisdictions								
	Developed	Developing	Americas	Middle East	Asia Pacific	Central and Eastern Europe	South Asia	Western Europe	Africa	UK	Ireland	Cyprus	China ex HK	Hong Kong SAR	Malaysia	Singapore	Pakistan	Mauritius
State of the recovery	OECD		Regions							Selected countries / jurisdictions								
It's getting better	14	33	29	37	35	35	33	11	38	10	5	13	53	41	23	34	26	31
We are at the bottom and things will now start to improve	14	17	23	16	14	10	14	14	24	16	11	17	9	10	16	21	15	31
We are at the bottom and will remain there for a while yet	44	22	25	27	21	32	26	45	16	47	47	30	17	19	18	20	28	22
It's getting worse	26	22	16	13	23	19	24	28	19	25	36	37	14	19	36	20	31	14
Don't know	2	5	7	7	7	3	3	2	4	2	1	3	7	12	6	4	0	2
ACCA GECS Recovery Index	-42	7	11	13	4	-6	-3	-48	27	-46	-68	-37	30	13	-15	16	-18	26
Business Confidence	OECD		Regions							Selected countries / jurisdictions								
Much less confident	11	9	7	12	9	6	10	11	9	10	16	10	6	13	9	13	12	5
Less confident	26	22	23	13	25	19	21	27	23	28	26	33	19	25	29	19	24	21
No change	40	39	37	33	41	50	45	41	27	42	38	34	55	53	41	35	43	26
More confident	20	23	27	35	18	22	18	18	30	18	18	17	13	9	14	20	18	39
Much more confident	3	7	6	7	7	3	7	2	11	1	3	6	7	0	6	13	3	9
ACCA GECS Confidence Index	-15	-2	3	17	-10	0	-5	-17	10	-19	-21	-20	-4	-28	-19	1	-15	21
Inflation	OECD		Regions							Selected countries / jurisdictions								
% reporting rising operating costs:	45	61	48	33	71	36	73	45	67	55	30	34	73	71	78	70	78	59

VIEWS FROM THE COALFACE

Robert D. Pearce

CFO, Davis Langdon and Seah Asia Company Ltd.

Note: The Davis Langdon and Seah Asia group is present mainly in the following countries: Singapore, Hong Kong, China, Philippines, Indonesia, Vietnam, Thailand, Brunei, Malaysia, Japan, Korea, India and Pakistan



Back in 2008 and 2009 I was working on a Corporate Recovery in London, UK. Whilst we were wrapping up the Corporate Recovery process the recession began. It was an experience I'll never forget, but at the same time it taught me some lessons that will remain very valuable.

Over the last quarter I feel that Asia may be about to experience a slowdown. Ultimately, in the long term Asia will continue to grow, but that doesn't mean it will not have any problems along the way. As Asia has grown, so have inflationary pressures. Typically, property prices, food and fuel have had a major impact on the economy.

Asia has a very high population that has historically worked for lower wages than its western counterparts. However, as the cost of living has grown, there is an increasing demand for higher salaries. For example, certain parts of China are experiencing annual salary hikes of 20% a year or more.

There is great concern amongst many that China's overstretched property market may collapse, and what's more, that the level of debt borrowing may be unsustainable. The Chinese government has introduced curbs on mortgage borrowing and speculative home buying which has resulted in some sales reduction. They have also been driving towards building more affordable houses which some argue may be causing a slowdown in the more expensive housing sectors. However, if the bubble bursts, this could have a detrimental impact on developers and recent homebuyers.

In addition, China is still under increasing pressure to strengthen the Yuan which is currently considered as undervalued, despite appreciating 5% against the US dollar since June 2010. China is reluctant to strengthen the Yuan too quickly as this may have a severe impact on their export trade. They argue that by strengthening their currency gradually they will give their exporters time to adjust. It is clear however that any further gains for the Yuan will have an impact on their economy.

Other areas around Asia are experiencing similar problems. If a slowdown did occur, this will more than likely spread throughout the whole region. However, due to the potential market growth Asia has to offer I do not believe any slowdown would be prolonged.

Governments around Asia are still successfully attracting foreign investors. The region remains a popular destination, partly due to lower costs and tax incentives, but also because there is still so much opportunity for growth within the Asian market. The region also offers many highly educated, skilled workers.

Growth and employment around Asia remain at high levels. The question is whether this will become a risk if businesses fail to detect any slowdown at the early stages. But, like all slowdowns in business, there is no-one to actually tell us when this begins, it is up to us to have the systems in place to detect risk early.

It would be wrong to say that businesses in Asia have not performed well over the last quarter. In fact, trade has remained pretty much the same. However, the looming concerns are bound to have an impact on the economy at some near point in the future.

Denis Korsunov ACCA CIA

Deputy director of corporate development department, KazMunaiGas Exploration Production



Kazakhstan is still benefitting from the recovery of the world economy. For the first four months of 2011, annualized GDP growth was 6.9% in comparison to the Government's forecast of 7%. The international outlook for the growth of Kazakhstan's economy is also positive. In May two respected international financial bodies

revised their forecasts for GDP growth in 2011 upwards: the European Bank for Reconstruction and Development (EBRD) raised their forecast from 5% to 7%, and the International Monetary Fund (IMF) from 5% to 5.9%.

Above-average prices for most significant export commodities led to rising pressure on KZT inflation. The Customer Price Index (CPI) stood at 4.8% in January-April and annual CPI (May 2011 to May 2010) was 8.3%. This is slightly higher than forecasts for 2011 (which ranged from 6% to 8%). Enterprises in Kazakhstan are experiencing the growth of operational and capital costs as a result.

The National Bank of Kazakhstan is supporting the Tenge (KZT)-dollar peg by sterilising excessive cash from export operations which is then accumulated in the National Fund and FX reserves. During the period of January-May the KZT strengthened against the USD by just 1.4%.

Additional gains for Kazakhstan's economy are arising from participation in the Customs Union of Belarus, Kazakhstan and Russia. The Customs Union opens up a market for labor, goods, capital and services with a total population of 168 million in comparison to just over 16 million in Kazakhstan. As a result of the Customs Union the volume of interstate trade is rapidly increasing and favorable opportunities for further integration and cross-investing are appearing.

At the same time, in the context of State Program of Accelerated Industrial-Innovative Development, the Government is planning to increase the share of local inputs in the procurement of goods and services by national holdings and enterprises. The Program states that by 2015 local content in government purchases should be 60% for goods and 90% for services. Hence we are expecting continuing growth of interest and confidence in Kazakhstan's economy by local and foreign investors.

Eric Verheijden
Finance manager, Air Products



We still see a slow recovery in Europe. GDP has grown by about 0.8%. Conditions vary by country and are still bad in Greece, Ireland, Portugal and Spain. Greece has needed a second bail out, which is not helping the euro.

Overall, unemployment has fallen further to around 9.5%. However in

Spain the figures have deteriorated further. Spanish unemployment is now close to 21%. This is a burden for the country that has in turn been forced to cut their deficit further. The Spanish have taken to the streets and are very unhappy with the proposed measures by the current government. National elections will probably not be held until May 2012. However after the last regional elections we have seen a change. The governing party has lost a lot of votes and confidence. There is a fear now that with the handover of power, hidden debts will be found in the regional authorities budgets. There is still talk about a possible bailout for Spain in the future that could have severe consequences for the euro as a whole.

The European Central Bank has for the first time in years increased the interest rate from 1% to 1.25%. This is not helping the countries with the higher deficits, which will need to borrow at a higher cost. German banks have lent the highest amount to these countries within Europe and it remains to be seen if this will all be recoverable in the end. After the latest stress test in Ireland it seems that Irish banks will require another €24 billion. This means that a lot of the bailout money that Ireland has received has essentially been used to support the Irish banks.

The last quarter was a strong one for the company and sales are nearing pre-crisis levels. As a company we still see improved results in Asia but it is possible that high inflation could slow this down. In the US we see steady growth, while in Europe we are still behind. This is partly due to our Spanish and Polish markets. Hopefully we have bottomed out now and we will see a slow recovery. But overall we expect that Europe will take longer to recover than the other regions.

Vince Hodgson
Consultant, private retail consultancy, Japan



The Bank of Japan's forecasts for economic growth have been cut to 0.6% for 2011. Its original forecast of 2.0% for 2012, which was at first revised to 2.9%, has now been downgraded as the effects of the nuclear crisis have started to be fully understood and it has become clear that the cost will far exceed the estimated \$300bn both in the

initial year and afterwards. The touted recovery in the second half will now take place in the fourth rather than third quarter if at all, and it is likely that both IMF and BOJ GDP forecasts will turn out to be optimistic. The reasons are a targeted 15% reduction in power use in order to avoid power blackouts, which is unlikely to work; recent job stats showing 4.6% unemployed, which will rise; and household spending on the decline (a 8.6% month-on-month decline in March which will continue due to the quake effects). A corporate tax increase and emergency consumption tax are also on the cards.

The combined effects of component supply disruption (auto industry output fell by over 50% in two months in the second quarter), power reduction, the persistently stronger Yen and high oil prices have really hurt auto manufacturers. Recent industrial production data point to significant falls along with falling exports (mainly cars and electronics) and thus a widening deficit. Beyond that 50% of 100 major firms surveyed said they have had "serious adverse effects" from the nuclear crisis and earthquake and all are considering using generators, collaborating with others on power savings, staggered shifts, or daylight saving time measures and extending summer vacation periods.

One factor ignored in the economic assumptions initially were the logistic issues caused by the earthquake and tsunami; many roads are still closed in Iwate, Miyagi and Fukushima prefectures, which has badly affected store deliveries. The Tohoku shinkansen only reopened fully recently but many local rail lines will take months to repair, which affects work commuting, as would power cuts in the major cities, should they occur. Sendai and Fukushima

airports are now open to much reduced services. The effects on agriculture (including food and commodity price increases) have also been underplayed. Within the 30 mile exclusion zone, agriculture will be impractical for at least the next 30 years due to soil contamination, especially as now it has been admitted by Tepco that plants 1, 2 and 3 have all melted down which will lead to higher radiation releases.

The above also means that Tepco's roadmap to recovery will go well beyond the planned January 2012 timetable. What is not often understood is that safe closure of these plants is a 10–15 year project. Replacing Fukushima Daiichi power generation capacity is itself a 3–5 year project.

Finally the major concern longer term – transferring production and sales bases to other countries, or western Japan, in both retail and the auto/electronics industries. Recent trends in both department store and convenience store business levels are year on year declines, and likely to continue. In fact, the business outlook except for certain parts of the economy like construction and alternative energy looks very bleak for the remainder of 2011 with some improvement in 2012 from the second quarter onwards. Deflation in Japan continues to be an issue and inflation in China and India, as well as slowing growth in those countries, will impact the Japanese economy and its speed of recovery.

CONCLUSIONS

It is difficult to know to what extent the results of the last quarter are indicative of underlying trends, as the disaster in Japan and the debt crisis in Europe introduced further uncertainty on an almost daily basis. Overall, it appears that the main themes of the last nine months – a recovery gone into reverse, the leading regions slowing down fast, rising inflation and flat investment – have persisted, though a renewed downturn is not in store in for now.

Yet new trends are also emerging: the loss of momentum in Asia and Africa has become particularly pronounced in the last few months; the limits of austerity are being explored in Western Europe; a renewed tightening of credit and cashflow conditions could be on the cards, even as new orders and employment are beginning to recover.

Both the already established trends and the more recent ones, should they persist, point to further instability in the near future. The many diverse roles of the professional accountant, whether in practice or industry, will almost certainly become more challenging in the second half of 2011.

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.

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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