

# Global Economic Conditions Survey Report: Q2, 2009

## Executive Summary

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### 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,<sup>1</sup> 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.

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1. *Global Economic Conditions Survey Benchmark Report: Q1, 2009*, ACCA, May 2009. [www.accaglobal.com/pubs/economy/analysis/acca/technical\\_papers/tech\\_17.pdf](http://www.accaglobal.com/pubs/economy/analysis/acca/technical_papers/tech_17.pdf)

## 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.

## 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.

# 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.

## **CONTACTS**

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