Global economic conditions survey report: Q3, 2018
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ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its 208,000 members and 503,000 students in 179 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 104 offices and centres and more than 7,300 Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA is currently introducing major innovations to its flagship qualification to ensure its members and future members continue to be the most valued, up to date and sought-after accountancy professionals globally.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability.

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**About IMA®**

IMA® (Institute of Management Accountants), named 2017 Professional Body of the Year by *The Accountant/ International Accounting Bulletin*, is one of the largest and most respected associations focused exclusively on advancing the management accounting profession. Globally, IMA supports the profession through research, the CMA® (Certified Management Accountant) program, continuing education, networking and advocacy of the highest ethical business practices. IMA has a global network of more than 100,000 members in 140 countries and 300 professional and student chapters. Headquartered in Montvale, N.J., USA, IMA provides localized services through its four global regions: The Americas, Asia/Pacific, Europe, and Middle East/India.

For more information about IMA, please visit: [www.imanet.org](http://www.imanet.org)
The Global Economic Conditions Survey (GECS), carried out jointly by ACCA (the Association of Chartered Certified Accountants) and IMA (the Institute of Management Accountants), is the largest regular economic survey of accountants around the world, in terms of both the number of respondents and the range of economic variables it monitors.

Its main indices are good predictors of GDP growth in themed countries and its daily trend deviations correlate well with the VIX, or ‘fear’ index, which measures expected stock price volatility.

Fieldwork for the Q3 2018 GECS took place between 31 August and 13 September 2018 and attracted 925 responses from ACCA and IMA members around the world, including 89 CFOs.

ACCA and IMA would like to thank all members who took the time to respond to the survey. It is their first-hand insights into the fortunes of companies around the world that make GECS a trusted barometer for the global economy.

We would also like to thank the following for their time and expertise:

- Andrew Kenningham, Senior International Economist, Capital Economics
- Dario Perkins, Managing Director, Global Macro at TS Lombard
- Claus Vistesen, Chief Eurozone Economist, Pantheon Macroeconomics.
Economic confidence fell in the third quarter of the year and is now at its lowest level since the first quarter of 2016. While the decline in the index seems at odds with current global conditions (most countries are holding up relatively well), it is consistent with the view that global growth is likely to slow gradually over the next couple of years – mainly due to weaknesses in the world’s two biggest economies, US and China.

South Asia was the most confident part of the global economy in the GECS. It overtook North America, where confidence has fallen sharply. The Middle East and Asia Pacific were the least confident regions.

Respondents’ biggest concern globally in Q3 was rising costs (cited by 57% – down from 61% in Q2). To a large extent the concern about costs is due to rising commodity prices, especially for oil. This has pushed headline inflation rates up in many countries. But measures of core inflation that exclude food and energy – and are a better guide to underlying inflationary pressures – are generally much lower. True unemployment rates in some countries, such as the US and UK are very low. But so far, any revival in wages growth has been modest.

Suppliers going out of business was a worry for just 12% of respondents. But that small proportion was a rare bright spot: 45% of businesses, for instance, are considering responding to changing economic circumstances by cutting staff numbers or introducing a hiring freeze. Only 18% are considering increasing staffing levels, down from 20% the previous quarter.

Confidence in the US is on the wane: it fell sharply in Q3 and is now at its lowest level since the first quarter of 2016. However, the GECS sub-components tell a slightly more encouraging picture, and the new orders component in particular is holding up pretty well. The most likely outcome for the US is a gradual slowdown in growth over the next couple of years.

In the UK, meanwhile, economic confidence fell for the second consecutive quarter and is now at its lowest level since the second quarter of 2017. Although the latest hard data suggest that the economy is performing reasonably well, the increasingly uncertain outlook for the Brexit negotiations is starting to weigh on sentiment, and continued modest wage growth is continuing to curb consumers’ purchasing power.

Confidence in Western Europe fell for the second consecutive quarter in Q3 and is now at its lowest level since the final quarter of 2016. The weakness in the GECS matches the latest hard data, which show that after a strong 2017, growth in Western Europe has slowed this year. A key reason for the weakness so far in 2018 has been a drop in external demand – mainly exports to China. With global demand set to weaken over the coming year, a strong rebound in growth in Western Europe is unlikely.

Confidence in China dropped back in Q3 and is now at its lowest level since the first quarter of 2016. While the drop in confidence has been caused largely by the intensifying trade war with the US, it also reflects weak domestic data: the authorities have tightened policy over the last year to try to slow credit growth and reduce risks in the financial sector.
The Belt and Road Initiative (BRI), whereby China helps to fund significant increases in infrastructure projects around the world, is experiencing growing problems.

On paper, the BRI benefits both the investor (China) and the beneficiary. For the former, it offers the prospect of new trade markets, an opportunity to export spare capacity and a chance to earn a higher return on its foreign exchange reserves. For the recipient countries, which may struggle to raise funds through international debt markets, it promises big improvements in their infrastructure. And it has already achieved some successes: better train links in Kenya; a major expansion of Athens’ main port; and an increase in electricity generating capacity in Pakistan.

But problems are growing. In Pakistan, for instance, BRI has led to an increase in imports and a deterioration in the current account position, which has put the country on the verge of a balance-of-payments crisis. In other countries – most notably in parts of Central, South and South East Asia – it is contributing to large increases in debt. These countries are already highly indebted, and they will struggle to pay back China’s loans.

These problems have led to growing opposition. Malaysia has recently cancelled a number of high-profile Chinese investment projects, including a US$14bn rail link along the east coast and two high-profile gas pipelines. Myanmar is scaling down a key port project amid fears over costs, and Pakistan has promised more oversight of Chinese projects.

Despite the obvious attraction of Chinese money, mounting worries about debt mean there is likely to be a major reassessment of BRI over the coming years. More projects are likely to be cancelled, and there will probably be a shift towards direct investment rather than loans.

For some of these countries, if BRI is curtailed then growth will slow. In Malaysia, for example, the value of the cancelled construction projects is equivalent to 8% of the country’s GDP spread over five years.¹

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¹ According to independent estimates based on Malaysian government data.

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**Chart 1:** Debt levels rise after Belt and Road (debt as a % of GDP)

<table>
<thead>
<tr>
<th>Country</th>
<th>Latest</th>
<th>Projected</th>
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<td>50</td>
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<tr>
<td>Cambodia</td>
<td>40</td>
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Source: Centre for Global Development
Ten years after the collapse of Lehman Brothers, which marked the start of the deepest global downturn since the great depression of the 1930s, the risk of something similar occurring in the near future appears quite low.

There are a number of reasons. There has been a sharp reduction in the amount of risky lending, including the sub-prime mortgages that triggered the crisis 10 years ago. The Dodd-Frank Act in the US and the creation of the Prudential Regulation Authority in the UK, as well as the Basel III regulations that require banks to hold more capital, have made banking sectors across the developed world much safer. And while there are worries about highly overvalued property prices in some countries, these concerns are mostly focused on relatively small economies such as Hong Kong and Australia.

However, risks are building elsewhere in the world economy. The two biggest are in China and Italy.

A sharp rise in private sector debt in China raises the risk of a problem in the country’s banking sector further down the line. A banking sector crisis in China would lead to a slowdown in investment, and we would expect the capital spending component of the GECS to weaken. “The general trend has been towards slower growth,” says Andrew Kenningham, Senior International Economist at Capital Economics. “We think this is consistent with a long-term path towards China slowing to more normal growth rates.”

In Italy, meanwhile, there has been a sharp increase in government debt to about 130% of GDP. Even a small rise in borrowing costs would make this debt burden unsustainable. Over the long term, the government spending component of the GECS will start to drop if the Italian government is forced to undergo a period of austerity.

It is not just Italy that is struggling with debt. “In aggregate, global debt ratios are higher than they were 10 or 15 years ago,” says Kenningham. “That means there’s more vulnerability in the system.”

And policymakers around the world have less of that ammunition with which to respond to a crisis. Ten years ago, central banks slashed interest rates and governments embarked on a period of fiscal loosening; today, they would be unable to react to the same degree.

Interest rates in all the major economies are much lower than they were on the eve of the global financial crisis a decade ago, and government debt levels are also much higher.
There was a third leg to the authorities’ response to the financial crisis: quantitative easing (QE) by central banks – the creation of money and its use to buy financial assets (usually government bonds) from the private sector. The intention was to boost liquidity, lift asset prices and support economic growth through wealth effects. Major central banks, including the US Federal Reserve, the Bank of England, the European Central Bank (ECB) and the Bank of Japan (BoJ) all engaged in significant amounts of QE, and the ECB and the BoJ are still doing so in late 2018.

Chart 4 illustrates the huge expansion of central bank balance sheets that has taken place over the last 10 years. QE certainly helped to restore confidence after the financial crisis, and it reduced long-term interest rates. There is no limit to how much QE a central bank can do, so this ammunition remains intact. The issue, however, is whether it would be as effective in a future financial crisis.

QE certainly helped to restore confidence after the financial crisis, and it reduced long-term interest rates.
The US economy has performed strongly since the last presidential election, and has been a key driver of economic growth over the past few years.

The US is heading for a slowdown – but not a recession

The US economy has performed strongly since the last presidential election, and has been a key driver of economic growth over the past few years. GDP growth reached 4.2% quarter on quarter in Q2 – the fastest since Q3 2014.3

“The US economy is still doing very well on the back of tax cuts and general fiscal stimulus,” says Claus Vistesen, Chief Eurozone Economist at Pantheon Macroeconomics. “That’s the headline story in terms of the global economy.”

However, there are questions around how long this period of strong growth will last. The last time the economy was in recession – officially defined as two consecutive quarters of negative growth – was in Q2 2009; the current period of expansion is the second longest since the Second World War.

The main potential cause of a recession is excessive tightening by the Federal Reserve. But while interest rates have increased steadily since they were first raised in late 2015, they are still low by historical standards. The Fed funds rate is currently just 2–2.25% – hardly enough to trigger a recession.4 Further rate rises are likely over the coming quarters as the Fed normalises its policy stance. But the pace of tightening is likely to be gradual and only a major policy mistake by the Fed would trigger a recession.

“The Fed will only raise rates as much as the market allows it to,” says Dario Perkins, Managing Director, Global Macro at TS Lombard. “It won’t want to go ahead of the curve, and so I don’t see any kind of big breakout from the trends we’ve seen quite recently.”

Vistesen agrees. “As long as the Fed is doing what it’s doing, which we think it will continue to do in the next couple of quarters,” he says, “emerging markets will do poorly because they don’t like higher rates, but the domestic story in the US is still strong.”

The trade war with China is a downside risk for the US economy but not likely by itself to cause recession. China currently imports goods from the US equivalent to just 0.9% of US GDP. Even if the trade war caused exports to China to fall by 20%, this would still only shave 0.18% from US GDP.5

“The economic consequences have been smaller than many people thought they would be,” says Kenningham. “Even for China and the US – never mind the wider world. That’s because, although the US and China are the world’s biggest trading nations, trade between them isn’t that enormous compared to the scale of total world trade.

“You tend to think of China as the manufacturer for the world – an entire economy dependent on selling stuff to the US,” he adds. “It was never quite like that: and it’s now got a big and growing domestic market. More iPhones are sold in China than in the US, for example.”

And while higher tariffs on imports from China will cause prices in the US to go up (and therefore reduce consumers’ purchasing power), the impact will be countered by the appreciation of the US dollar against the Chinese renminbi.

Another reason to expect growth to slow is the fading effect of this year’s huge tax cut. However, this on its own is unlikely to be enough to trigger a recession. And if the Republican Party manages to keep hold of both houses of congress in the forthcoming mid-term elections, the tax cuts could be extended.

In Q3, reliable lead indicators in the GECs – notably US orders – held up much better than the overall index, and are still consistent with fairly buoyant US GDP growth. A recession and even a sharp slowdown are unlikely; the most likely scenario is a gradual slowdown over the next couple of years, but with growth remaining above 2%.

“I think headline growth is probably going to come down a little bit next year,” says Vistesen. “But it’s still going to be a relatively strong economy.”

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3 https://tradingeconomics.com/united-states/gdp-growth
5 According to independent estimates based on Bureau of Economic Analysis data.
In the GECS, economic confidence fell again in the third quarter and is now at its lowest level since the first quarter of 2016. The result of the survey is consistent with the view that although the world economy is performing well at the moment, growth is likely to slow over the coming quarters – due mainly to mounting headwinds in China and the US.

Most parts of the world economy recorded a dip in confidence last quarter. South Asia overtook North America as the most confident region, and the Middle East and Asia Pacific, which recorded an especially big drop in confidence, were the two least confident.
Confidence in both OECD and non-OECD countries declined sharply in Q3, and is now at multi-year lows. For OECD countries, confidence is at its lowest level since the final quarter of 2012. The fact that confidence is lower in non-OECD economies largely reflects the deteriorating outlook for growth in China. Not only would a sharp slowdown in Chinese growth weigh on GECS sentiment in China, but it would weigh on confidence in other emerging markets, most notably those in Asia who are major trading partners of the China, as well as the big commodity producers in Latin America and Africa.

Chart 7: A downturn in OECD and non-OECD countries
3. Regional analysis

Confidence in North America fell sharply in Q3 and is now at its lowest level in over two years.

**NORTH AMERICA**

Confidence in North America fell sharply in Q3 and is now at its lowest level in over two years. Confidence in both Canada and the US has dropped sharply, and is now at multi-quarter lows.

**The US in focus**

Confidence in the US is now at its lowest level since the first quarter of 2016, although the orders index is holding up much better and is consistent with a modest slowdown in US GDP growth. Hard data for Q3 point to annualised GDP growth of 3% to 3.5%, down from 4.2% in Q2.

The recent tax cuts have boosted corporate profits and household incomes, stimulating investment and consumer spending. Ultimately this effect will wear off but for the time being fiscal policy is supporting growth. Meanwhile interest rates are likely to remain relatively low over the coming years, and any further hikes will be contingent on the economy’s continued strong performance.

The trade war with China will cause some disruption for US companies operating there, the macroeconomic impact is likely to be modest – as long as it does not escalate dramatically.

![Chart 8: Confidence declines sharply in North America](chart8)

![Chart 9: In the US, all the main GECS components fall](chart9)
“You don’t see any real effect on the economy so far – in global terms, there’s a relatively small direct impact of these tariffs,” says Perkins. “But obviously if the US responds with another billion and increases it to 25%, then you start to talk about a much bigger impact.”

Although the employment index has plunged, it remains positive, reflecting the continued health of the US jobs market. The country’s unemployment rate is at its lowest since 1969, and the economy continues to generate about 200,000 new jobs a month. Wages, meanwhile, grew by 2.8% in annual terms in August – the fastest rate of growth in nine years.6

The government spending component fell again in Q3, and is now well below the high it reached in Q1 2018. The recent tax measures are likely to push the budget deficit towards 6% of GDP, potentially limiting the scope for significant spending increases.

2.8% annual wages growth at 2.8% in September, close to a nine-year high

Chart 10: US unemployment rate is at a near-50 year low


Confidence in Western Europe fell for the second consecutive quarter in Q3, and it is now at its lowest level since the final quarter of 2016.

The number of respondents who feel pessimistic about the future now exceeds by 20 percentage points those who are more confident; in Q2, the equivalent figure was 14 percentage points.

That decline is consistent with other data that show the Eurozone disappointing slightly this year following its growth of 2.6% in 2017 (compared with average growth of just 0.7% over the past decade).

“Growth’s been disappointing this year relative to expectations,” says Kenningham. “I think that’s the main thing – rather than there being a really major downturn.”

It is mainly external factors that are responsible for the decline – namely the appreciation of the euro and weaker growth in China, which is a key export market for Germany, the Eurozone’s biggest economy.

“I think there has been an impact in Europe due to the China slowdown as well,” says Perkins. “In the last few years, China either stimulates or restricts policy and then, 10 or 12 months later, you see the impact on the rest of the world.”

The outlook for domestic demand is more positive. Low interest rates should support investment, while rising employment rates should help to drive private consumption.

“On a headline level, I think the European numbers are still decent,” says Vistesen. “Manufacturing is poor, but manufacturing was slowing anyway – so that’s not looking good. But some of the domestic demand indicators are still all right.”

The big risk over the coming year is the uncertain outlook in Italy, where bond yields continue to fluctuate sharply amid worries over how committed the new government is to prudent fiscal policy.

The government spending sub-component remained positive in Q3, which reflects the improving fiscal positions of most countries and their gradual easing of austerity. However, the decline in the employment sub-component, which fell for a second straight month, is a concern. Although unemployment rates have fallen from the record high levels of a couple of years ago, they remain high – especially in Spain, Italy and Greece.

“People have been very disappointed this year, I think with Europe,” says Vistesen. “Even though actually there’s not that much to be [disappointed about]. But Italy and Brexit are obviously the two main political stories that investors are reading.”

Chart 11: In Western Europe, confidence is at its lowest level since 2016
Economic confidence fell again in the UK and remains deep in negative territory.

The UK in focus
Economic confidence fell again in the UK and remains deep in negative territory. Uncertainty over the Brexit negotiations is likely to be weighing on sentiment, and the survey results are consistent with the latest data that show the UK continuing to struggle.

“You can understand why big companies wouldn’t want to take out big investments now, or why people wouldn’t want to buy houses right now,” says Perkins. “We’re not in a recessionary environment, but we’re in a kind of stagnant environment, where there isn’t really a lot happening. And there won’t be a lot happening until we get some kind of clarity.”

However, there are still some bright spots for the UK. The improvement in the government’s fiscal position should lead to an easing of austerity over the next couple of years, and it is notable that the government-spending index remains at a fairly high level.

Meanwhile, with inflation set to fall back over the coming months as the effects of the recent fall in sterling drop out of the annual comparison, consumer purchasing power should start to recover. Some companies have highlighted the risks to their businesses from Brexit, but it is noticeable that while the GECS’s capital spending sub-component is in negative territory, it is continuing to hold up reasonably well.

“When it comes to their own personal finances, consumers are very optimistic,” says Vistesen. “Unemployment is very low, wage growth is starting to pick up a little bit, interest rates are still low, house prices are still going up outside London. Maybe that’s also why some of the retail sales number have been all right recently in the UK, and construction and industrial production have come up.”

Finally, the UK labour market remains exceptionally buoyant. The unemployment rate fell to just 4% in the three months to July – the lowest rate since the mid-1970s. And although the employment sub-component of the GECS weakened slightly in Q3 and is in negative territory, it remains high by historical standards.

“If we don’t get a clear Brexit deal, investment will suffer in the first half of next year, which is not going to be good news,” adds Vistesen. “But there’s resilience in the household sector because in the short run all the metrics that matter for households will still look okay.”

Chart 12: In the UK, Brexit is affecting confidence

Source: GECS
In South Asia, confidence fell in Q3 for the fourth consecutive quarter. It rose in Pakistan, but remains much lower than in India, where confidence fell slightly.

The rebound in confidence in Pakistan follows the country's general election in July, which saw the election of former cricketer Imran Khan as prime minister. Although Khan takes over at a difficult time for the economy – it is on the brink of a balance-of-payments crisis – investors have been impressed by his promises to cut the budget deficit.

In India, meanwhile, confidence remains buoyant, reflecting a strong economy that is benefiting from a fiscal boost ahead of next year’s elections. Strong consumption, higher interest rates and rising inflationary pressures, however, are likely to start dragging on growth prospects soon.

A more detailed examination of South Asia as a whole shows that the government spending sub-component remains firmly in positive territory, and was broadly unchanged from Q2. There was a sharp improvement in the capital expenditure and employment components.
Following a strong year, economic confidence in the Asia Pacific region dropped back sharply in the third quarter and is at its lowest level since Q1 2016.

This decline in confidence reflects three main factors. First, mounting worries about a trade war between the US and China. This would hit not only demand for China’s exports, but also exports from countries such as Taiwan and Malaysia that export a lot of intermediate goods to China. Second, the worsening prospects for global growth. The likes of Hong Kong, Singapore and Thailand are among the most open countries in the world, and they will suffer as the global economy starts to cool. Third, rising interest rates. Indonesia and the Philippines have raised borrowing costs aggressively over the past few months to combat rising inflation and support their currencies.

A closer look at the breakdown of the GECS shows weakness across the board, with all three of the main components worsening in the third quarter. The decline in the capital expenditure component was especially marked, and reflects the fact that as growth slows, there will be fewer investment opportunities.

The government spending component has also eased back, but it remains in positive territory: most countries in the region have healthy public finances. Fiscal policy across the region is likely to become more proactive if export demand continues to weaken.
Confidence in the world’s second biggest economy dropped back sharply in the third quarter, and is now at its lowest level since the first quarter of 2016.

China in focus
Confidence in the world’s second biggest economy dropped back sharply in the third quarter, and is now at its lowest level since the first quarter of 2016. That fall comes amid a mounting trade war with the US, which has damaged investor confidence and contributed to a sharp downturn in the equity market.

However, the impact of the latest 10% tariffs on US$200bn of Chinese imports at the end of September (in addition to the US$50bn that were imposed earlier in the year) should not be too significant. The renminbi has declined by around 8% in April against the dollar. Meanwhile, China is the key supplier of many of the products on which the US has imposed tariffs, which means US suppliers will struggle to find alternative suppliers straight away.

The bigger worry for China is the trade war continuing to escalate. President Trump has threatened to increase the tariff rate to 25% unless China makes more concessions, and even to impose tariffs on all imports (over US$500bn) from China. "I don’t think protectionism is going to go away," says Kenningham. “It’s pretty clear that Trump is intent on pressing on with tariffs, and I think it would be very difficult for China and the US to come to an agreement any time soon.”

The government now faces a difficult choice. If it decides to loosen policy to offset the impact of the US tariffs, it risks undoing the progress it has made over the past year in reducing risks in the financial sector. Alternatively, if it keeps policy on hold, growth could slow – leading to an increase in unemployment and a rise in social unrest.

The government spending sub-component remained at a very high level in Q3, which could reflect expectations that policy will be loosened soon. In contrast, however, there was a sharp fall in both the capital spending and employment sub-components. This may reflect worries that slower growth will lead to a downturn in investment, which will then affect employment prospects.

Chart 16: China’s confidence falls to lowest level in nearly three years

Source: GECS

8 https://www.bbc.co.uk/news/business-45037252
Confidence in the Middle East slumped in the third quarter of the year and is now at its lowest level since the GECS began. Several factors could be behind this drop in confidence. First, concerns about regional security following the re-imposition of sanctions on Iran. Second, the real estate sector, which is seen as the weak point of the UAE economy, is suffering again amid further price falls. A sharp fall in prices could lead to a rise in non-performing loans. Finally, there is the stronger US dollar. Most currencies in the Middle East are pegged to the US dollar, and its rise will have dented the competitiveness of non-oil exports from the Middle East.

All three of the main sub-components fell sharply in the third quarter. The employment component remains deeply in negative territory and fell to its lowest level since the survey began – a reflection of the difficulty the region’s countries are having in nurturing jobs outside of the oil and gas sector.

The government spending index, meanwhile, fell back into negative territory, which is a sign that the recent easing-off of fiscal austerity may have run its course. The capital expenditure component also fell back, and is now below its average since the survey began.
AFRICA

Confidence in Africa also fell back in the third quarter, and is now well below the all-time high of the first quarter. The message from the main sub-components is mixed: both government spending and capital expenditure were broadly flat compared with Q2, but the employment index fell.

The decline in confidence can be largely attributed to the deteriorating outlook for South Africa, which fell into recession in the first half of the year following two consecutive quarters of negative growth. The weak performance of the economy, which is due to the fragility of the trade, transport and agricultural sectors, has dented hopes that the election of President Cyril Ramaphosa, would lead to an improvement in South Africa’s economic performance.

Prospects are slightly better in Nigeria, however. The country’s economy is currently supported by a rebound in oil production and an increase in government spending ahead of general elections that are due early next year. In Angola, meanwhile, President João Lourenço has begun his term in office by introducing some useful reforms. However, the country’s debt problems continue to cast a shadow over its prospects.

Chart 18: Confidence in Africa has tumbled from Q1’s all-time high

Source: GECS

Chart 19: South Africa falls into recession

Source: Statistics South Africa
Looking ahead

The world economy has performed well this year, probably growing at the fastest rate in seven years. Going into 2019 global growth is likely to moderate but remain healthy. Slower growth in the world’s two largest economies – the US and China – is the reason.

The US has performed especially well recently, helped in part by the massive tax cut that was introduced at the start of the year. However, its effects will start to fade next year, which will act as a drag on demand. And higher interest rates, which have been increasing steadily over the past few years, will also start to affect the economy. We expect this to add up to a gradual slowdown in growth over the next couple of years.

In China, meanwhile, the main headwind to growth will come from the gradual impact of recent monetary policy tightening, which will weigh on credit growth. Policymakers appear to finally be recognising that recent rates of credit growth are unsustainable and that a period of weaker economic growth is a price worth paying for a more secure financial system. “We don’t have the discussions with clients that we were having two or three years ago about a really severe China crisis,” says TS Lombard’s Dario Perkins.

The ongoing trade war with the US will affect export demand, but with the recent decline in the renminbi almost completely offsetting the impact of higher tariffs (the Chinese currency has declined by about 8% against the US dollar since April), the impact on export demand should not be too severe.

Prospects for the Eurozone remain good. Although exports are likely to weaken a little due to weaker growth in China and the US, the outlook for domestic demand is positive. Loose monetary policy should help to support investment growth. And falling unemployment in many Eurozone countries is leading to rising wages, which is helping to support retail sales. The outlook in Italy, on the other hand, is uncertain, and the economy could start to unravel over the coming months.
“Italy has got quite serious difficulties, and worries about its fiscal sustainability came to the fore this year – partly because of the political situation,” says Capital Economics’ Andrew Kenningham. “It seems that markets were reassured recently by the fact that the finance minister said he would hit the European Commission’s target for the deficit, but Italy’s public finances are an issue that won’t be resolved any time soon.”

Beyond the Eurozone, the UK is also facing uncertainty: its Brexit negotiations are a key concern. However, if a last-minute deal is agreed, then we can expect business investment to hold up reasonably well. Indeed the reduction in uncertainty as the UK leaves the EU may even trigger a rebound in investment. Moreover, inflation should fall over the coming year as the impact of sterling’s recent decline continues to drop out of the annual comparison, which will boost consumer purchasing power and spending. And although the Bank of England has raised interest rates a couple of times over the past year, they remain very low at 0.75% with financial markets anticipating just one further ¼ per cent increase in 2019. Finally, after eight years of austerity the Budget later this month is likely to announce some loosening of fiscal policy.

For emerging markets, the outlook is downbeat. Turkey and Argentina are likely to experience deep recessions: each has recently suffered sharp falls in their currency and have been forced to raise interest rates aggressively. “Argentina and Turkey have really quite deep problems, and they’re heading for or in very deep recessions which are primarily the result of the way they’ve been managed – or mismanaged,” says Kenningham. “We’re not optimistic that they will get out of this situation quickly.”

Most of the smaller, trade-dependent economies in emerging Asia, meanwhile, are likely to slow because of poorer prospects for export demand. Higher US interest rates and a stronger US dollar are also negative for emerging markets generally – and especially those with significant dollar-denominated debt.

In its October World Economic Outlook the IMF reduced its global growth forecast for next year from 3.9% to 3.7%, the same rate as it expects for this year.
## Appendix I: Economies covered by Q3 survey responses

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<th>North America</th>
<th>Middle East</th>
<th>Asia Pacific</th>
<th>Central &amp; Eastern Europe</th>
<th>South Asia</th>
<th>Western Europe</th>
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ACCA, IMA and the global economy

Global economic conditions continue to dominate business and political life. News and debates on economic issues are almost constantly the focus of media attention. While most national economies are now growing once again, it is far from clear how sustainable this growth is or how long it will be before a sense of normalcy returns to the global economy.

ACCA and IMA have been prominent voices on what the accounting profession can do to help turn the global economy around. Both bodies have published extensively on a range of topics, from the regulation of financial markets or the prevention of fraud and money laundering, to fair value or the role of international accounting standards, to talent management and the development of an ethical business culture.

ACCA and IMA aim to demonstrate how an effective global accountancy profession contributes to sustainable global economic development; to champion the role of accountants as agents of value in business; and to support their members in challenging times. Both professional bodies believe that accountants add considerable value to business, and never more so than in the current environment.

Accountants are particularly instrumental in supporting the small business sector. Small and medium-sized enterprises (SMEs) account for more than half of the world’s private sector output and about two-thirds of all employment.

Both ACCA and IMA focus much of their research and advocacy efforts on articulating the benefits to SMEs of solid financial management and reliable financial information.

WHERE NEXT?

As countries around the world continue to consider strategies to promote stability and stimulate growth, the interconnectedness of national economies, and how they are managed and regulated, is now under close scrutiny. The development of the global accountancy profession has benefited from, and in turn contributed greatly to, the development of the interconnected global economy. The fortunes of the two are tied. ACCA and IMA will, therefore, continue to consider the challenges ahead for the global economy, and focus on equipping professional accountants for the uncertain future.

CONTACTS

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