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The Association of
Accountants and
Financial Professionals
in Business



Global economic
conditions
survey report:
Q4, 2018

About ACCA

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.

More information is here: www.accaglobal.com

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

The Global Economic Conditions Survey (GECS) is the largest regular economic survey of accountants in the world.

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 Q4 2018 GECS took place between 23 November and 7 December 2018 and attracted 3,773 responses from ACCA and IMA members around the world, including 302 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 Vistesén, Chief Eurozone Economist, Pantheon Macroeconomics.



Global economic confidence fell for the third consecutive quarter in Q4 and is now at an all-time low.

Global economic confidence fell for the third consecutive quarter in Q4 and is now at an all-time low. There are signs of growth beginning to weaken in the world's three biggest economies: the US, China and the Eurozone. But the global orders balance was little changed in Q4 and remains consistent with overall expansion in the global economy in the first half of 2019.

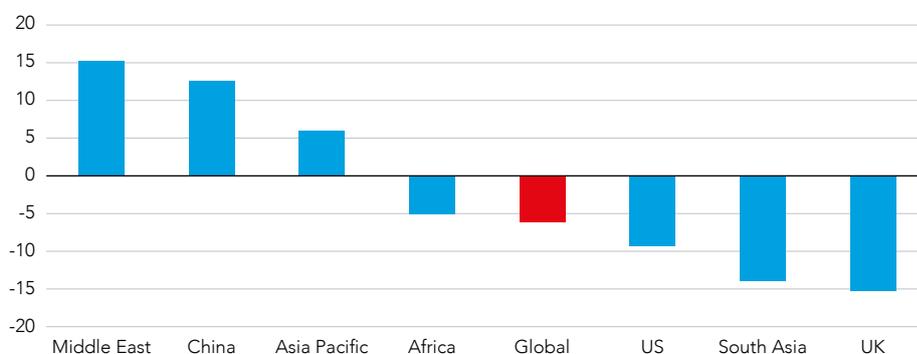
All the key regions recorded a negative confidence score (i.e. there were more people pessimistic about the outlook than optimistic), with the lowest score being recorded in Western Europe and the Caribbean. The most confident (or rather least pessimistic) part of the global economy was again South Asia, followed by Africa and North America. In terms of changes this quarter confidence increased in China and the Middle East but fell back in the US and UK. This pattern of changes was repeated for orders.

The strongest headwind for respondents was again rising costs, with 55% citing this as an issue. These concerns may recede in the next quarter, owing to the effects of slowing growth and the fall in oil prices. The possibility of suppliers going out of business was a worry for just 12% of respondents – unchanged from Q3.

In a reflection of the less upbeat outlook, 47% of respondents globally are considering laying off staff, with just 18% considering taking on new workers. Meanwhile, 39% of respondents are considering scaling back investment in new capital projects, compared with just 16% who are looking to increase investment in new projects.

Confidence in the US fell back again in the final quarter of the year and is now at an all-time low. There are signs that domestic demand is starting to slow, owing to a combination of higher interest

Chart 1: Change in confidence between Q3 and Q4



Source: GECS

The level of uncertainty surrounding Brexit reached extreme levels and is affecting economic activity and confidence. This is especially so with respect to business investment, which is now on a declining trend.

rates and the waning impact of the recent fiscal stimulus. Higher mortgage interest rates are cooling house building activity for example. But the jobs market remains extremely buoyant which will underpin robust consumer spending in coming months. Despite falling in Q4 the GECS orders balance for the US is still consistent with annualised GDP growth of around 2.5% in the first half of 2019. Recession this year is extremely unlikely.

Confidence in the UK also fell sharply – by 15 points – and is now at a record low. The level of uncertainty surrounding Brexit reached extreme levels and is affecting economic activity and confidence. This is especially so with respect to business investment, which is now on a declining trend. In Q4 the GECS capital expenditure index fell by 17 points to its lowest level in five years. Economic growth this year is extremely difficult to forecast given that a range of Brexit outcomes are all still possible with the UK scheduled to leave the EU on 29th March. Only a disorderly no deal outcome would have the potential to trigger a recession and even this would probably be relatively short-lived – offset by a monetary and fiscal policy response. Other outcomes – a withdrawal agreement or some delay in the Brexit process are not likely to derail the economy, which has underlying positive momentum. Indeed any reduction in uncertainty may give the economy a boost, especially from a catch up in investment spending.

In Western Europe, confidence also fell in Q4 to its lowest level since the final quarter of 2011. This is consistent with recent hard data, which shows the Eurozone economy faltering. Current weakness is partly due to temporary factors such as the cut in car production in Germany due to new emissions standards and more recently the effects of civil disturbance in France. However, other factors, including weaker export demand and uncertainty related to Brexit, are also weighing on prospects. Meanwhile, the European Central Bank ended its quantitative easing programme at the end of last year, withdrawing one form of monetary stimulus. But interest rates are likely to remain very low for the foreseeable future with inflation set to be quiescent in coming months.

It is not all bad news, however. Although confidence in China remains subdued, it bounced back in Q4. Growth in China has weakened over the past year due to the lagged effects of monetary tightening and a slowdown in credit growth. But the authorities have recently started to loosen policy, easing reserve requirements on banks and announcing big infrastructure projects for example: this should support growth later this year. Trade tensions between the US and China persist, despite the 90-day delay in tariff increases agreed at the G20 summit last December. Sentiment in China is unlikely to revive significantly until this issue is fully resolved.

The Euro has survived its first twenty years, despite the global financial crisis, sovereign debt defaults and crises in the banking system. But the euro-zone will need significant structural reform if the Euro is to be a long-term success.

THE EURO – THE FIRST AND NEXT 20 YEARS

Twenty years ago this month the Euro was launched with the irrevocable locking of exchange rates by its founder members and the assumption by the European Central Bank (ECB) of a single monetary policy. Early in 2002, 12 countries introduced Euro notes and coin, completing the process of creating a European single currency that had been first proposed as long ago as 1970 in the Werner Report. Many analysts doubted that the euro would come into existence – or believed that if it did so that it would not survive for very long. They have been proved wrong and the Euro survives – after 20 turbulent years of financial crisis, sovereign debt default and severe levels of systemic banking risk.

Of all the remarks made by the three Presidents of the ECB over the last 20 years the most significant by far was the one made by Mario Draghi in July 2012 when he said “{w}ithin our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough.” The fact that the head of a major central bank had to provide reassurance that its currency would survive speaks volumes about the existential threat to the euro at that time. But this did mark a turning point for the euro as M Draghi’s comments went a long way to convince financial markets that the euro was indeed here to stay. Bond yields in some of the periphery countries fell precipitously in the weeks after Mr Draghi’s statement, having previously increased sharply as fears of Euro break up mounted.

But of course survival does not equate to success. The Euro has resulted in economic divergence between its members rather than the convergence

it was supposed to deliver. (Economic convergence is the tendency for the business cycles of economies to move together, to be correlated.) A one-size fits all monetary policy conducted by the ECB resulted in much lower interest rates in many periphery economies, much lower than was appropriate for their domestic economies. This resulted in booming economies, often fuelled by red hot housing markets (Ireland and Spain being prime examples of this). Rapid economic growth led to higher inflation and a loss of competitiveness. Inevitably these booms led to busts, greatly exacerbated by the financial crisis of 2007/08. This cruelly exposed the lack of flexibility in a monetary union comprised of greatly varying economies. With no exchange rate or interest rate to ease adjustment – and fiscal policy constrained also by rules limiting budget deficits, there was only one method for these economies to restore lost competitiveness – deflate demand. The consequent austerity and severe recession only served to push debt to extreme levels, raising fears of sovereign default and even countries leaving the Euro in order to be free from the single currency economic straitjacket. Cue M. Draghi’s commitment in 2012.

So the Euro has indeed survived. But it has produced economic *divergence* not the convergence required to cement a permanent monetary union. One way of illustrating this is by comparing the dispersion of growth between the euro-zone economies in the 18 years before the creation of the Euro and in the subsequent 20 years. Statistical analysis shows that the variability of growth between these countries has increased in the Euro period compared to the pre-euro period. (See final column in table below.) While complete convergence is neither desirable

Table 1: Main Eurozone countries pre and post-Euro economic performance

GDP %											
Annual average	Austria	Belgium	France	Germany	Greece	Ireland	Italy	N’lands	Portugal	Spain	Sdev
1981–1998	2.2	2.0	2.1	2.1	1.6	4.5	1.8	2.6	3.4	2.7	0.8
1999–2018*	1.8	1.7	1.5	1.5	0.1	5.3	0.5	1.7	0.9	2.0	1.3
CPI %											
Annual average	Austria	Belgium	France	Germany	Greece	Ireland	Italy	N’lands	Portugal	Spain	Sdev
1980–1998	3.1	3.6	4.9	2.8	15.9	6.0	8.1	2.4	11.7	7.6	4.2
1999–2018*	1.8	2.0	1.5	1.5	2.1	1.7	1.9	1.9	2.0	2.2	0.2

* except Greece which joined in 2001
Source: Eurostat

The recent stand-off between the EU and Italy over Italy's budget illustrates the fundamental conflict within the euro-zone – fiscal integration among all members against fiscal discipline on each member.

nor achievable in any monetary union, some degree of convergence is necessary for the long-term sustainability of the Euro. Moreover, continued divergence risks undermining the single currency, threatening its ultimate break up.

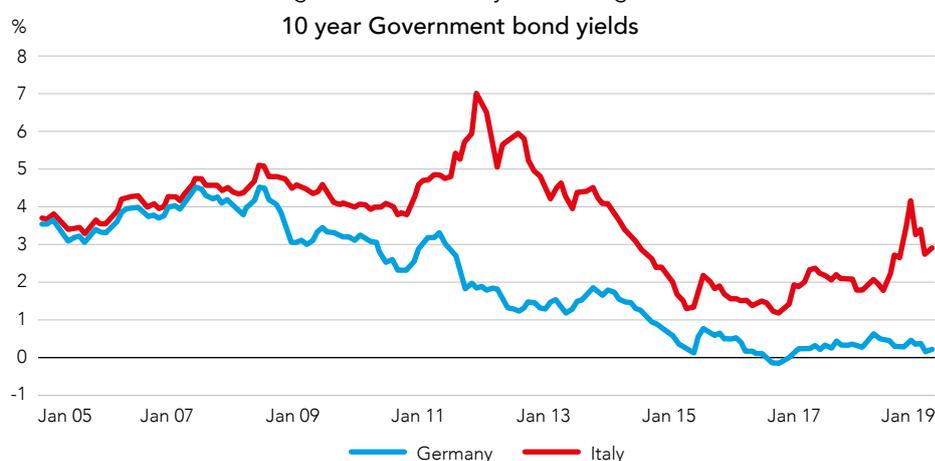
On a more positive note there has been reduced variability of inflation at lower average rates across euro members. To a large extent this reflects much lower average rates in previous high inflation countries, such as Spain, Portugal and Greece. In many cases this lower inflation has been achieved at the expense of reduced economic growth and higher unemployment rates. But there can be no doubt that the ECB has met its mandate to deliver “below but close to 2% CPI inflation” in the euro area as a whole.

THE NEXT 20 YEARS

The history of monetary unions is that they require political union in order to ensure long-term survival. The Euro is no different. So while it has been saved its fundamental structural flaws remain. These will need remedying in the next 20 years. In the long-term the euro-zone will need a central finance ministry with a budget to operate a stabilisation policy. In addition, debt mutualisation will be necessary i.e. the euro-zone as a whole guarantees each member's debts. Such developments would help cement the euro by providing – through a euro-zone budget – an alternative means of economic adjustment.

These issues are illustrated by the recent situation in Italy. Italian public sector debt is around 130 per cent of GDP and the European Commission insists that the Italian budget should ensure that this debt level is on a declining trend. But the recently elected Italian government insisted on a more relaxed budgetary stance as it attempted to tackle poverty and stimulate the economy. The stakes with Italy are high – its economy is over 8 times larger than that of Greece, for example, so default and bail out would have serious economic consequences for the euro area as a whole. As the chart shows the spread between Italian and German 10-year Government bond yields widened towards the end of 2018, reflecting concerns about Italy's ability to fund its debt and meet its debt servicing obligations. A deal in December effectively kicked the can down the road – as the Italian government agreed to delay some (but not all) spending measures and aim for a budget deficit this year of 2% of GDP instead of the original 2.4% target. But Italy committed to raise VAT if the public finances do not improve from 2020 onwards. With Brexit and European Parliament elections looming in the first half of 2019 – as well as new budget issues in France – such a deal suited both the Italian government and European Commission. But Italy's structural problems persist – an excessive level of public sector debt and a sclerotic economy barely larger than it was 20 years ago, at the launch of the Euro. Italy's debt crisis has been postponed, not cancelled.

Chart 2: Italian and German government bond yields diverge



Source: Federal Reserve Bank of St Louis

More euro-zone crises are inevitable over the next twenty years – but these will help prompt reform and propel the single currency towards greater fiscal integration, including a Finance Ministry with debt raising powers.

The recent Italian mini-crisis highlights an on-going tension between euro-zone members on this issue. Some want to move towards greater fiscal integration at the earliest opportunity. President Macron of France is a proponent of this approach. But there is stiff resistance from Germany and the Netherlands who argue that nation states should retain responsibility for their own fiscal policies and the health of their public finances. The concern especially in Germany is that some countries, knowing that their debts are guaranteed at the euro-zone level, would pursue excessively lax policies, imposing costs on other euro-zone members.

So the Euro will probably survive for another 20 years – indeed it may well have now passed the point of maximum danger. But by 2038 it will also look rather different than it does today and will have expanded to include more than 20 members. Moreover, there will be in some form a Eurozone Finance Ministry with tax raising powers and a stabilisation remit. A Eurozone government bond market is also likely to have emerged in some form. This will be achieved over time with a series of small steps usually triggered by crises – the traditional way the euro-zone has moved towards greater integration. More eurozone crises over the next two decades is a fairly safe prediction. Less predictable is the extent to which there will be real economic convergence among Euro members. That may have to wait until the Euro has turned 40.



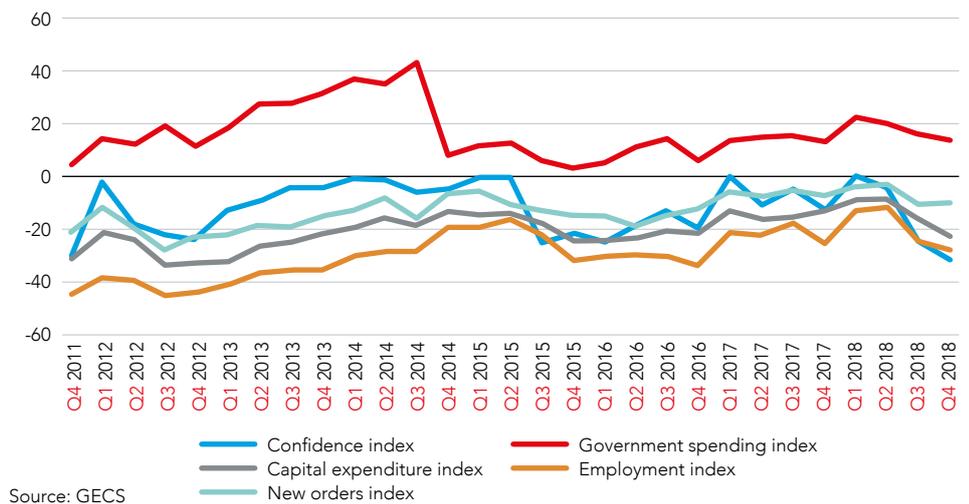
2. Global and regional analysis

The GECS global confidence index fell again in the final quarter of the year and is now at an all-time low.

The GECS global confidence index fell again in the final quarter of the year and is now at an all-time low. Prospects in all three of the world's biggest economies- US, China and Eurozone are less bright than for some time. But slowing global growth does not mean a material risk of recession.

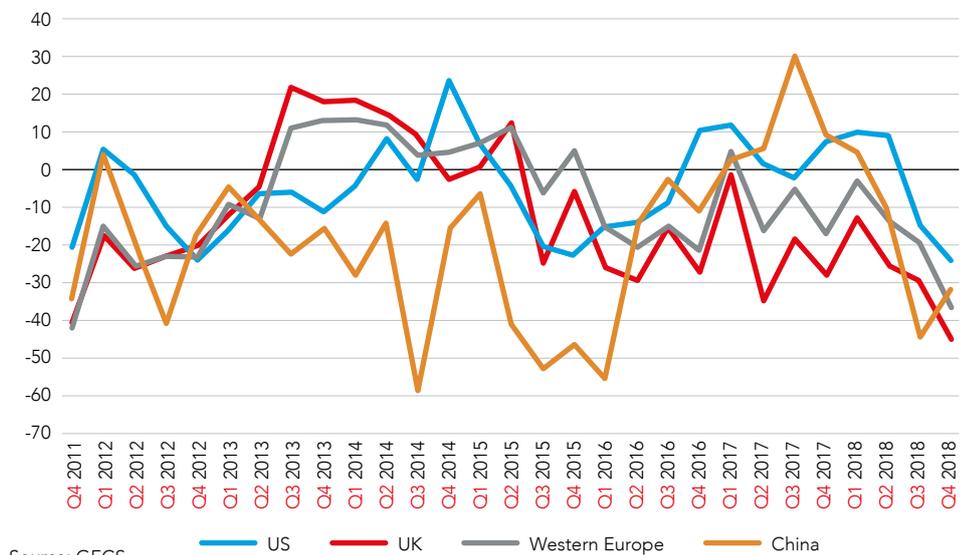
Most areas of the global economy saw a further fall in confidence last quarter, with record lows recorded in the US, Eurozone and the UK. Confidence did bounce in China, but it remains low by historical standards.

Chart 3: Global economic confidence at a record low



Source: GECS

Chart 4: Confidence up in China, but down in other major economies



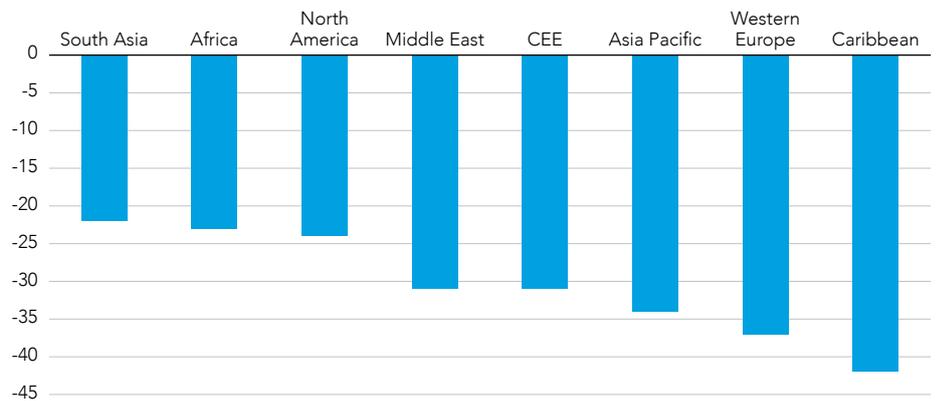
Source: GECS

Confidence in OECD economies fell again in Q4 and is now at a record low, reflecting the continued weakness in the US and the Eurozone.

South Asia, followed by Africa and North America, were the least pessimistic regions of the global economy last quarter, although in all three regions more people thought the outlook would worsen than improve. The Asia Pacific region and Western Europe were among the most pessimistic regions of the global economy in the fourth quarter.

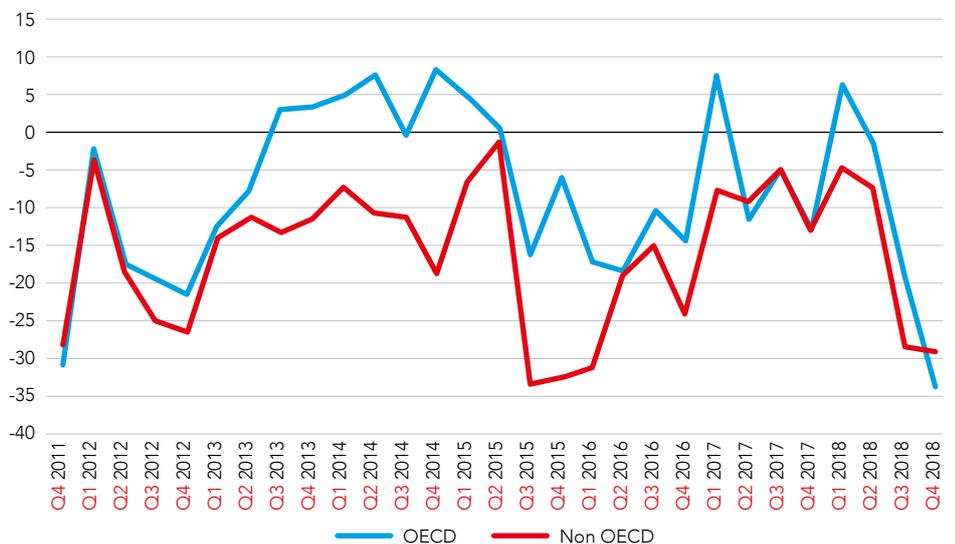
Confidence in OECD economies fell again in Q4 and is now at a record low, reflecting the continued weakness in the US and the Eurozone. By contrast, confidence in non-OECD countries was generally stable, owing mainly to an improvement in China and the Middle East.

Chart 5: South Asia on top again



Source: GECS

Chart 6: OECD and non-OECD economies see parallel downturns



Source: GECS

Confidence in the North American region fell last quarter, with declines in both the US and Canada.

NORTH AMERICA

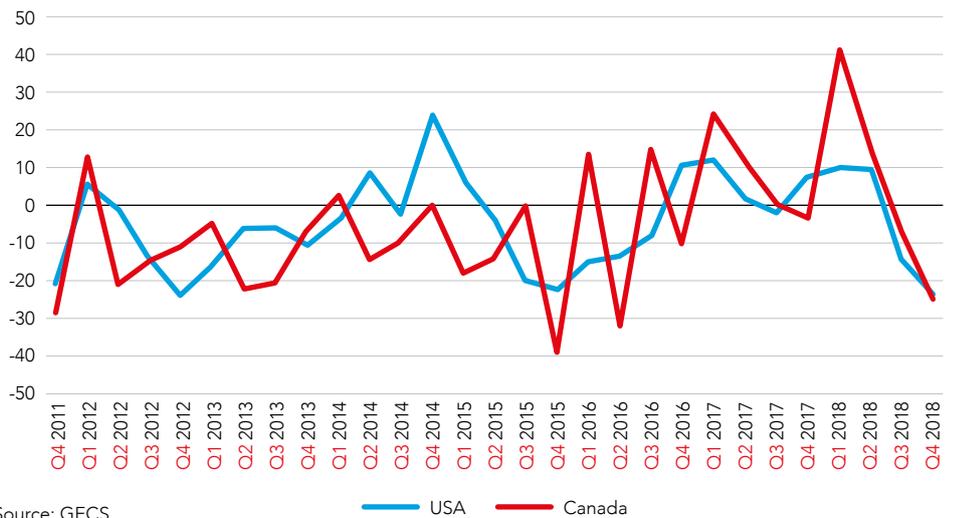
Confidence in the North American region fell last quarter, with declines in both the US and Canada. But while confidence in the US is at a new all-time low, confidence in Canada is merely at its lowest level since the second quarter of 2016.

The US in focus

In the US, the decline in confidence, which has mirrored declines in the US stock market, reflects several factors, in particular less supportive monetary and fiscal policy. But growth still has momentum and the GECS orders balance remains consistent with 2% to 2.5% annualised GDP growth in the first part of 2019.

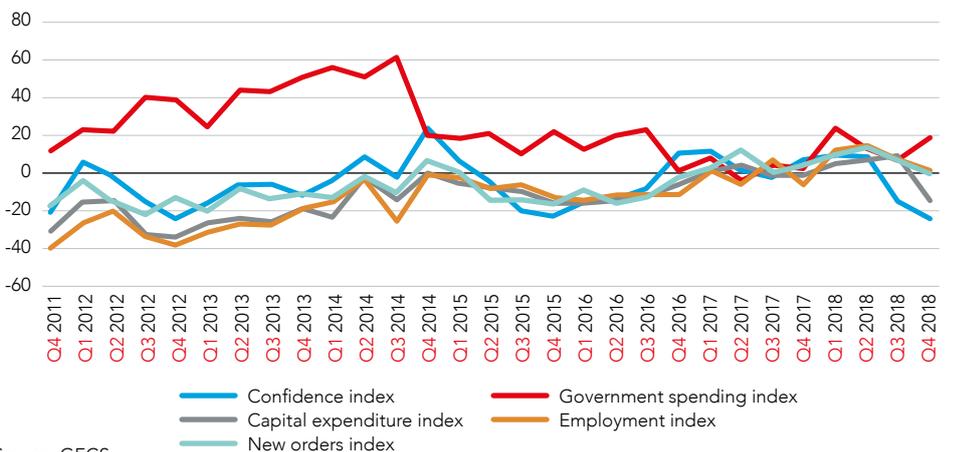
Over the course of 2018 the US Federal Reserve raised rates by 100bps to 2.5%, with the final 25bps increase coming in December, after the Q4 GECS had been conducted. The Federal Reserve now considers that the level of interest rates is approaching neutral i.e. neither cooling or stimulating the economy. Market expectations for this year have been reduced significantly in recent months with a maximum of two 25bps increases now anticipated. With monetary policy switching to neutral fiscal policy is also less stimulatory as the effect of last year's tax cuts, which gave a significant boost to household and corporate incomes, fade.

Chart 7: Confidence drops sharply in North America



Source: GECS

Chart 8: Confidence drops sharply in the US



Source: GECS

The Canadian economy is slowing as higher interest rates are slowing the housing market – a major source of recent buoyancy in consumer spending.

Trade tensions remain a downside risk, notwithstanding the truce and current negotiations with China. Even at maximum level US tariffs on Chinese imports will have a modest direct effect on the US economy, estimated by the OECD at 0.8% of GDP spread over three years. But on top of this there is the indirect effect of greater uncertainty created by trade tensions and this has been at least one factor in recent stock market volatility. The OECD estimates that this could add another 0.2% to the loss of GDP compared with the no trade war scenario.

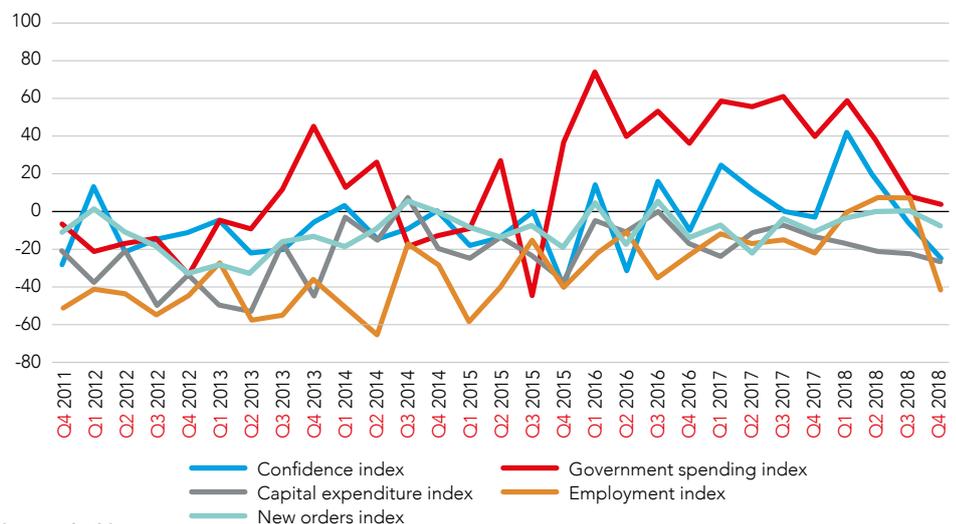
Except for government spending, all the major sub-components fell. The sharp drop in the capital expenditure sub-component presumably reflects the fading chances of a substantial infrastructure package following the Republican Party's loss of the House of Representatives in the recent mid-term elections. Although the employment component fell slightly, it still reflects the rude health of the country's jobs market.

Canada in focus

The Canadian economy is slowing as higher interest rates are slowing the housing market – a major source of recent buoyancy in consumer spending. The Bank of Canada increased interest rates by 75bp last year to 1.75%, which will have increased the debt servicing burden on heavily indebted households. Export growth is also likely to moderate this year, reflecting less robust growth in the US – destination for almost three quarters of Canadian exports. On the plus side, the renegotiation of NAFTA (the North American Free-trade Agreement) has helped to remove a key downside risk. GDP growth slowed from around 3% in 2017 to close to 2% in 2018 and looks likely to be under 2% this year, probably close to 1.75%.

The softer outlook is reflected in the decline in GECS confidence measure this quarter, touching its lowest level since the second quarter of 2016. The sub-component indices, including employment and orders, are consistent with a less buoyant outlook in the first half of 2019.

Chart 9: Canadian confidence falls



Source: GECS

In Western Europe, confidence fell sharply in the final quarter of the year and is at a new all-time low.

WESTERN EUROPE

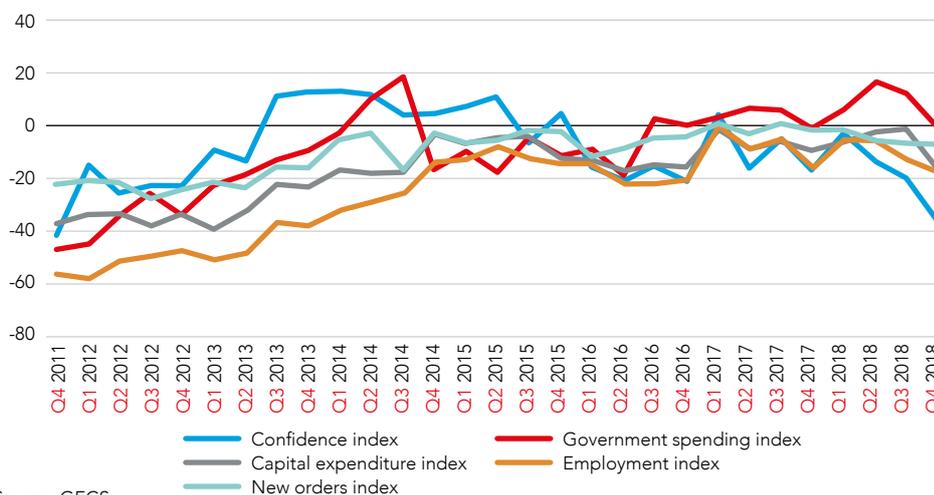
In Western Europe, confidence fell sharply in the final quarter of the year and is at its lowest level in seven years. The decline is reflected in the recent hard data, with Eurozone growth slowing to a quarterly rate of just 0.2% in the third quarter, which is below the trend rate of growth. More recent survey data, notably the Purchasing Managers Indices, suggest the slowdown continued through the final quarter.

“There has been a fairly abrupt cyclical slowdown. We initially thought that there may be a bounce back in the economy in Q4, but that now looks unlikely,” comments Andrew Kenningham. Some factors behind the recent downturn, most notably the sharp decline in car production in Germany (related to vehicle testing for the new emissions standards) and protests in France, should prove temporary. However, external demand is likely to be restrained by slower growth in China and the US – plus continued Brexit-related uncertainty in the UK.

Meanwhile, the European Central Bank ended its quantitative easing programme at the end of last year no longer buying assets to boost liquidity. Despite the withdrawal of one form of monetary stimulus, interest rates are likely to remain very low for the foreseeable future with inflation set to remain quiescent in coming months. It remains to be seen whether this monetary policy stance will underpin domestic demand growth which has been supported by rising employment and wages.

All the four major sub-components fell in Q4 and are now in negative territory. One source of potential encouragement is that the government spending sub-component is still holding up relatively well. This may reflect the fact that, although the fiscal position of countries such as Italy and Greece is very weak, the situation for the Eurozone as a whole is reasonably healthy. Although the new orders sub-component fell back, the decline was very small, which supports our view that growth is likely to weaken only gradually over the next few quarters.

Chart 10: Confidence at lowest in seven years



Source: GECS

In Ireland confidence picked up for the second consecutive quarter in Q4.

Ireland in focus

Somewhat surprisingly, given its exposure to the UK and the fact that it would be one of the hardest-hit economies in the event of a hard Brexit, in Ireland confidence picked up for the second consecutive quarter in Q4.

The improvement reflects that, uncertainty surrounding Brexit notwithstanding, the economy is performing pretty well at the moment, helped by a buoyant consumer sector, strong employment market and rapid wage growth. Indeed, it is notable that, despite a small decline in Q4, the employment sub-component remains in positive territory.

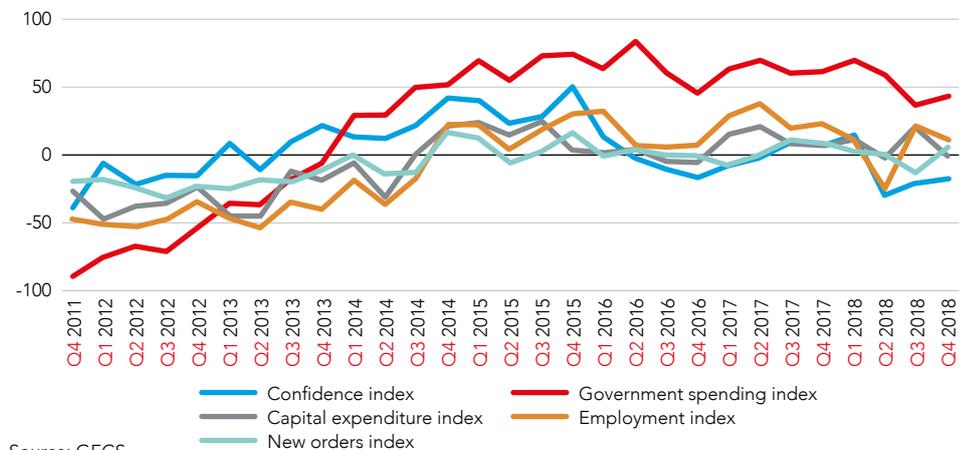
The new orders component picked up, which suggests confidence is likely to hold up relatively well in the near term, provided the UK doesn't crash out of the EU without a deal.

Russia in focus

Russia is likely to maintain GDP growth at an annual rate of just below 2% through this year, continuing the modest recovery from the recession of 2015-16. Lower oil prices and the impact of US sanctions are likely to weigh on demand. However, this is likely to be offset by the sharp decline in the ruble boosting competitiveness. Inflationary pressures are likely to remain subdued, limiting rate rises from the central bank. Fiscal policy is also likely to be supportive (the budget is balanced at an oil price of \$50 per barrel).

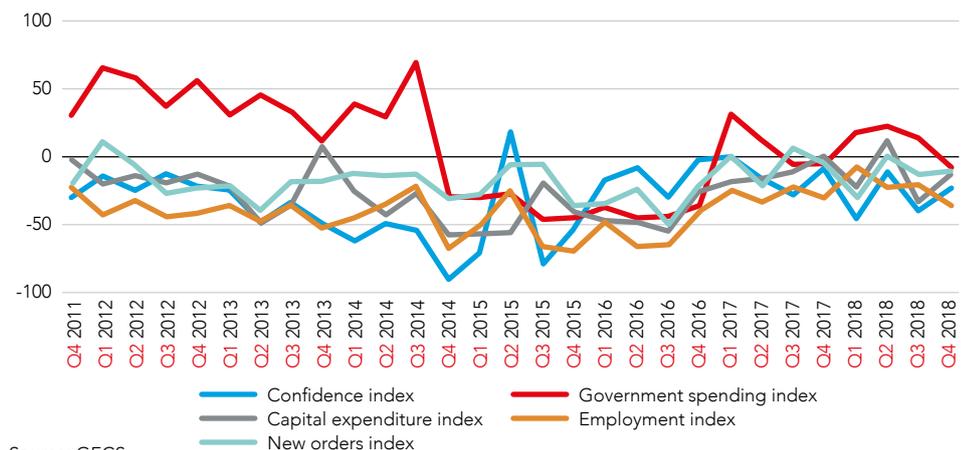
The steady but modest outlook for the economy is reflected in the Q4 GECS confidence index, which rebounded somewhat in the fourth quarter. The new orders index was little changed. The message from the GECS survey is one of less than spectacular growth, but nor are the indicators pointing to recession.

Chart 11: Confidence in Ireland up despite Brexit



Source: GECS

Chart 12: Steady if modest outlook for Russia



Source: GECS

Confidence in the UK fell sharply in the final quarter of the year and is at its lowest level since the series began.

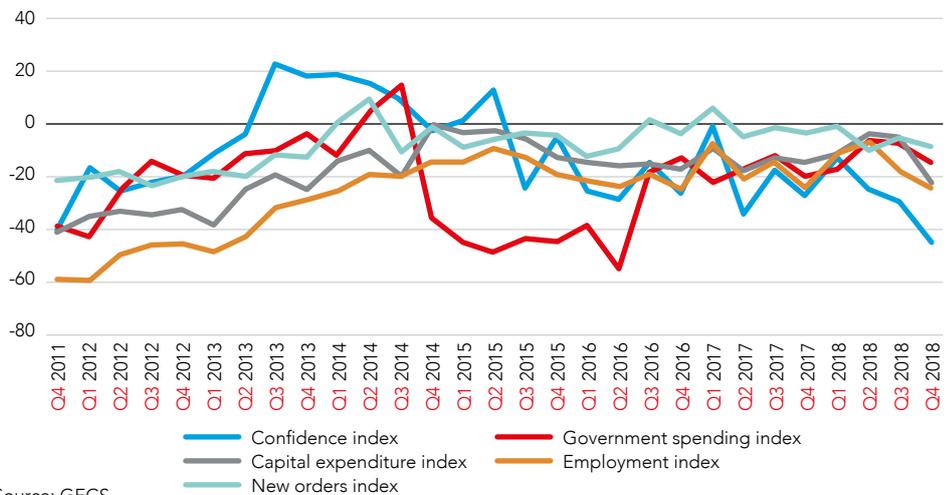
UK in focus

Confidence in the UK fell sharply in the final quarter of the year and is at its lowest level since the series began. The slump in confidence comes amid extremely high uncertainty over the outlook for Brexit: there remains a range of possible outcomes with the UK due to leave the EU on 29th March this year: projections for the economy beyond this date are pure conjecture. For the year as a whole GDP forecasts range from zero under a no deal Brexit or 1.5% or more under a deal scenario that significantly reduces uncertainty. Notwithstanding the huge Brexit cloud hanging over the economy, the fundamentals are in relatively good shape with inflation drifting down towards the target, a buoyant labour market and a revival in wage growth.

“If [disorderly no deal] happens, we think that there could be a recession in 2019. Not a huge one, not 2008/9 style, but there could be zero or slightly negative growth” said Andrew Kennington. “We think that, in the event of a no deal Brexit, the fall [of the pound] would be less than it was after the referendum,” he continues. “partly because a certain amount of the risk of a no deal has already been priced in.”

In a reflection of this uncertainty, all the major sub-components fell last quarter. The decline in the capital expenditure sub-component was especially sharp, reflecting the declining trend in business investment ahead of the resolution of Brexit. Slightly more encouragingly, although the new orders sub-component fell, the decline was relatively small.

Chart 13: UK confidence falls as Brexit worries mount



Source: GECS

Confidence in South Asia has held up better than elsewhere, although even here the GECS confidence index is now at its lowest level since Q4 2012.

SOUTH ASIA

Confidence in South Asia has held up better than elsewhere, although even here the GECS confidence index is now at its lowest level since Q4 2012. There is a sharp regional contrast between Pakistan, which is struggling with macroeconomic imbalances, and India, where confidence is high and increased significantly in the quarter.

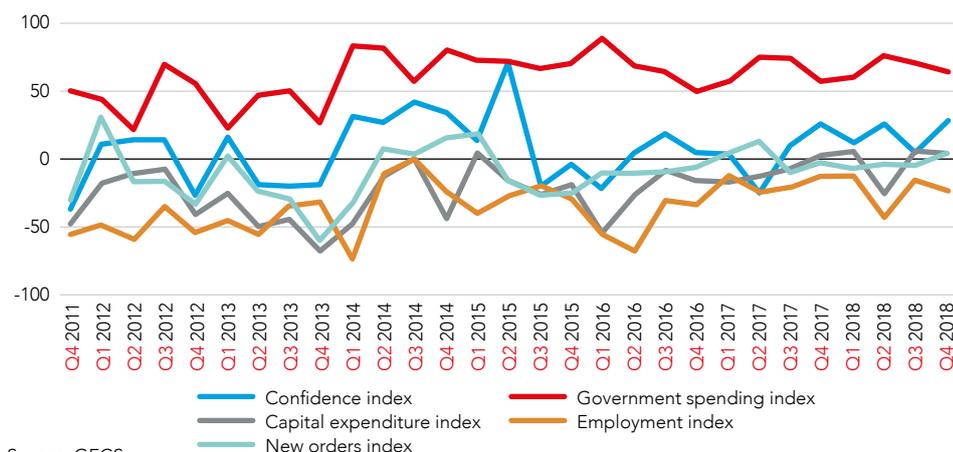
India in focus

The GECS confidence index for India rebounded strongly in Q4 and is now at its highest level since the second quarter of 2015. The orders balance is also relatively buoyant, at its highest since Q2 2017. This is consistent with a continued positive outlook for the Indian economy. The World Bank forecasts 7.3%

GDP growth for fiscal 2018/19, making India the top-performing major economy in the world. Growth is being driven by consumption and investment, both of which are rebounding strongly after temporary negative influences arising from the introduction of a Goods and Services Tax (GST).

The government spending sub-component fell slightly last quarter but remained very high by recent standards. This reflects the fact that fiscal policy has been loosened ahead of general elections that are due in the first half of 2019. The capital expenditure sub-component fell slightly, but remained relatively buoyant, while the employment sub-component dropped slightly.

Chart 14: Confidence high in India ahead of the general election



Source: GECS

The GECS confidence index for Pakistan fell back sharply in the final quarter of the year, with confidence now at its second-lowest level since the series began.

Pakistan in focus

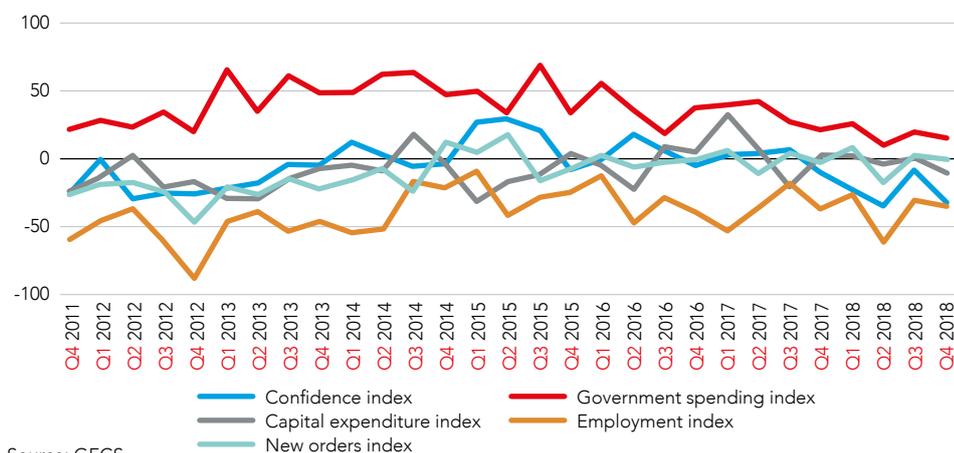
The GECS confidence index for Pakistan fell back sharply in the final quarter of the year, with confidence now at its second-lowest level since the series began. The slump in confidence reflects the poor outlook for the economy, which is experiencing a balance-of-payments crisis (the current account deficit is around 6 per cent of GDP) and a large fiscal deficit in excess of 6 per cent of GDP.

In an attempt to address these imbalances, the authorities have raised interest rates aggressively over the past

year, devalued the exchange rate and tightened fiscal policy. All this is likely to weigh on growth, which looks certain to slow sharply in 2019. The World Bank recently downgraded its GDP growth forecast for fiscal 2018/19 to 3.7%, from 4.8% previously.

All the major sub-components fell back in the final quarter. The poor outlook for government spending was reflected in the drop in the government spending sub-component while the capital expenditure component also dipped.

Chart 15: Confidence drops as the balance-of-payments crisis bites



Source: GECS

In China, confidence rebounded last quarter, for the first time in over a year. But it remains at a low level.

ASIA PACIFIC

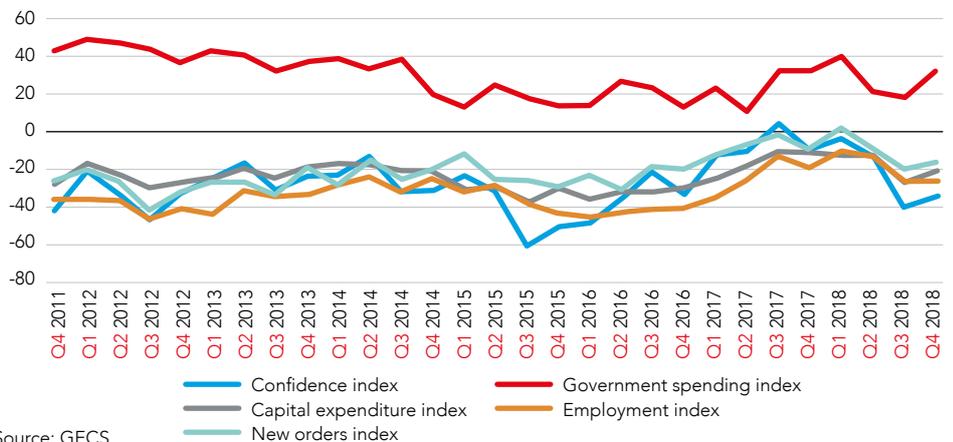
The GECS Asia Pacific confidence index rose slightly in Q4 but remains at a very low level. A bounce in confidence in China, where recent monetary and fiscal stimulus have raised hopes of a growth rebound. Fears over the impact of a trade war between the US and China, despite the recent truce, are clearly an important factor weighing on confidence. In addition, a more general slowdown in the global economy will have a material effect on the economic outlook in the APAC region, which is particularly dependent on exports for growth.

A breakdown of the score shows a sharp rebound in the government spending sub-component. The relatively healthy fiscal position of most countries in Asia means further stimulus is easily affordable.

China in focus

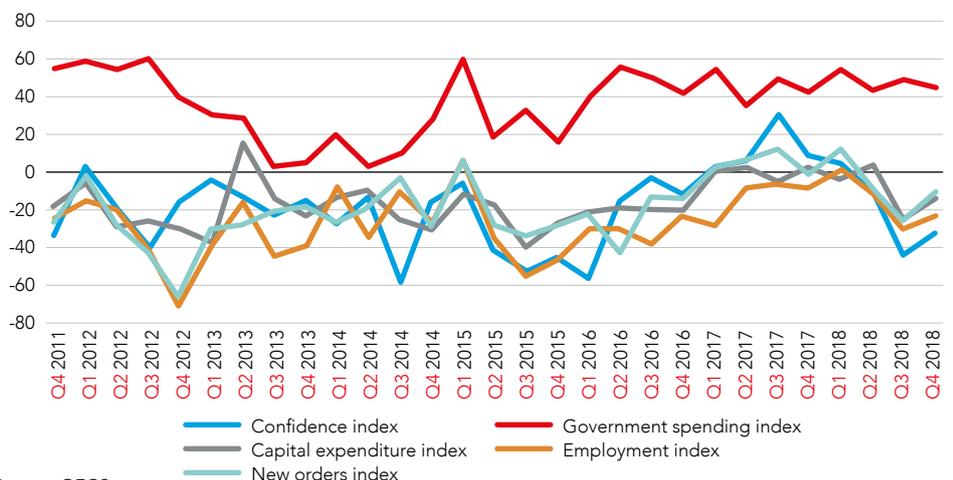
In China, confidence rebounded last quarter, for the first time in over a year. But it remains at a low level. The economy is slowing with surveys pointing to contraction in manufacturing at the end of 2018. Global carmakers and tech giant Apple have attributed poor performance in part to weak demand from China. The main reason for the slowing economy is the lagged impact of previous policy tightening, which has led to a slowdown in credit growth and wobbles in the property sector. A slower global economy will hurt demand for China's exports. In addition trade tensions with the US may reduce demand for Chinese exports through higher tariffs, but also knock investment spending through increased uncertainty and low business confidence.

Chart 16: Confidence up, but still at a low level



Source: GECS

Chart 17: Confidence bounces in China



Source: GECS

Economic growth in Hong Kong and Singapore is slowing as weaker global trade growth feeds into lower demand for exports.

The overall message from the detail of the GECS China survey is one of weak momentum. But the government spending index remains in positive territory, possibly reflecting an easing of fiscal policy. There was also a slight improvement in the capital spending sub-component but this, and other measures, including new orders, remain negative.

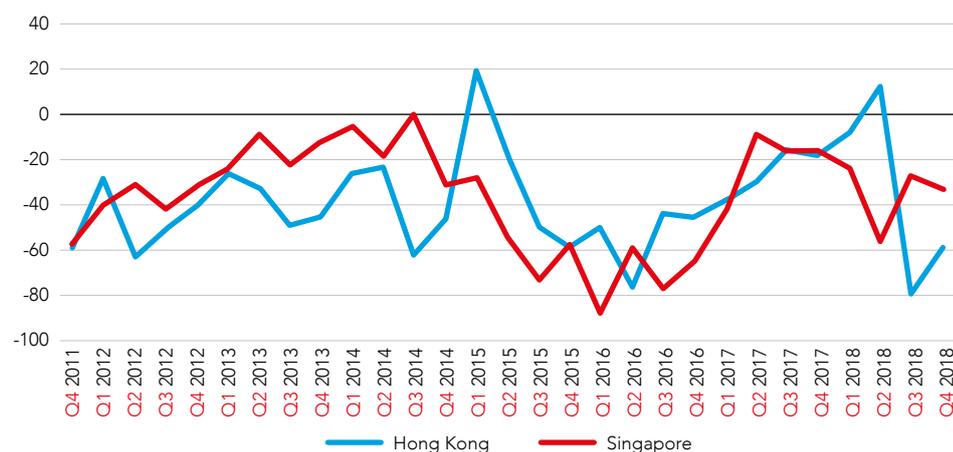
“Credit growth has slowed a lot and is the main reason why the economy has been losing momentum,” suggests Kenningham. “We think that this will continue until the middle of the year. There’s quite a long lag between changes in credit policy and changes in GDP growth, of at least six months. “The property sector is much weaker than it used to be,” he adds. “There is obviously replacement demand, but there isn’t anything like the same potential for property investment to drive the economy in the coming years as there has been in the past.”

Hong Kong and Singapore in focus

Economic growth in Hong Kong and Singapore is slowing as weaker global trade growth feeds into lower demand for exports. (These are the two most trade-dependent economies in the Asia Pacific region.) Growth this year is likely to be less than 3% for both, especially if the Chinese economy continues to slow and US-China trade tensions are unresolved. More positively, reduced expectations of the degree of monetary tightening by the US Federal Reserve this year should help lift tightening pressure in both Hong Kong and Singapore, where policy is conducted through means of an exchange rate target. Last year real estate markets in both economies faced significant headwinds from higher interest rates.

Nevertheless, the outlook for both economies is dominated by global economic prospects, which have deteriorated in recent months. Confidence levels in both countries now reflect this less positive picture. The new orders sub-component for both Hong Kong and Singapore also points to a difficult economic picture in the first half of 2019.

Chart 18: Trade-dependent economies to slow



Source: GECS

The GECS confidence index dropped back sharply in Malaysia in Q4, remaining well in negative territory.

Malaysia in focus

The GECS confidence index dropped back sharply in Malaysia in Q4, remaining well in negative territory. A low level of confidence reflects a relatively soft economic outlook. The World Bank now forecasts 4.7% GDP growth for 2019, below the long run average of 5.1% a year and down from a recent high of 5.9% in 2017. Weaker investment spending, especially in the public sector, is an important factor in the current slowdown. A more cautious approach to infrastructure spending suggests that there will be no early recovery in investment spending. Growth in Malaysia is likely to remain relatively modest over the coming year with downside risks from an escalation in the US-China trade war.

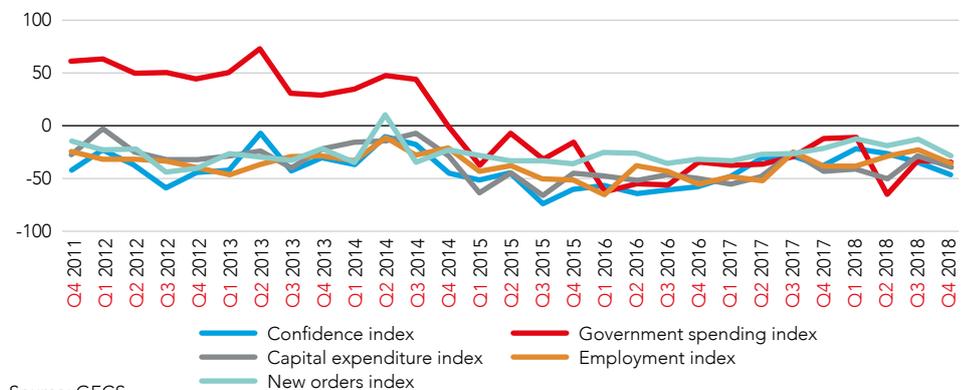
This outlook is reflected in the GECS sub-component readings, which are negative across the board, including government spending. The new orders sub-component fell to its lowest level since Q1 2017.

Australia in focus

The Australian economy has performed strongly in recent years, boosted by a buoyant housing market and exports to China. Both of these factors are now waning, moderating growth. A buoyant housing market has been a key driver of strong consumption growth in recent years. But the market has recently slowed in the wake of tightening credit conditions and reduced affordability and this will act as a drag on consumer spending. In addition, the slowdown in China – a key export market for Australia – will contribute to slower GDP growth this year. For 2019 growth is likely to be around 2.5% after a 3%+ print for 2018.

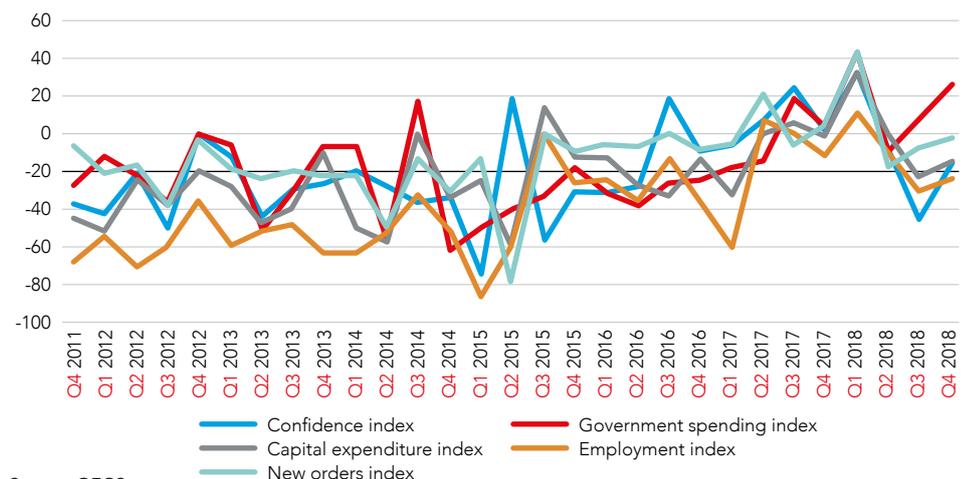
The softening outlook for the economy is reflected in the GECS confidence index, which remains firmly negative. There was a strong uptick in the government spending sub-component But the capital expenditure sub-component remains weak, which fits with the story that the economy is undergoing a structural shift away from capital-intensive industrial sectors.

Chart 19: A drop in confidence in Malaysia



Source: GECS

Chart 20: Confidence remains negative in Australia



Source: GECS

Confidence in the Middle East improved in the final quarter of the year but remains negative.

MIDDLE EAST

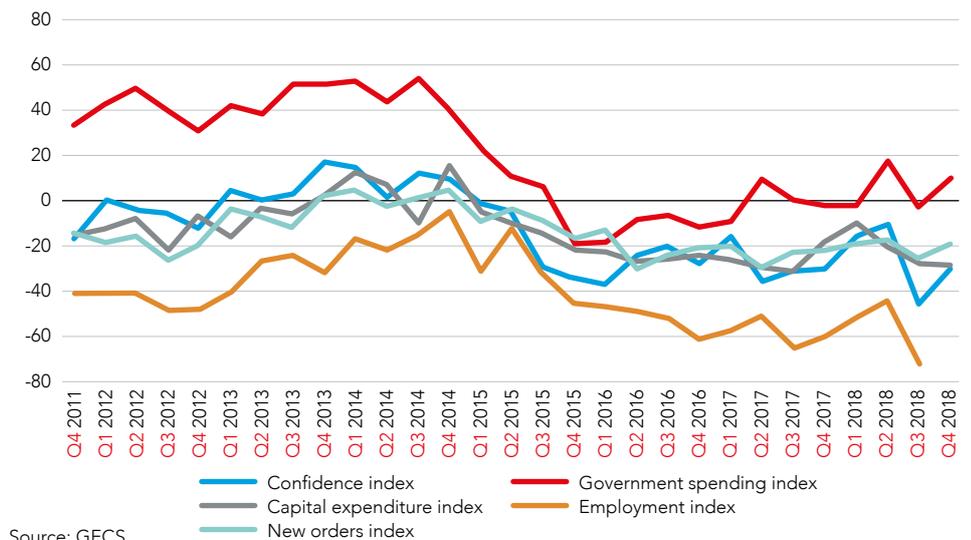
Confidence in the Middle East improved in the final quarter of the year but remains negative. Not surprisingly this confidence measure is fairly well correlated with oil prices and it is unusual for confidence to increase when oil prices fall, as occurred in the fourth quarter. But confidence is still low, reflecting the level of oil prices which threaten government and export revenues.

Perhaps unsurprisingly, the capital expenditure sub-component of the GECS score remains negative. One source of optimism is an improvement in new orders, which points to some improvement early in 2019.

UAE in Focus

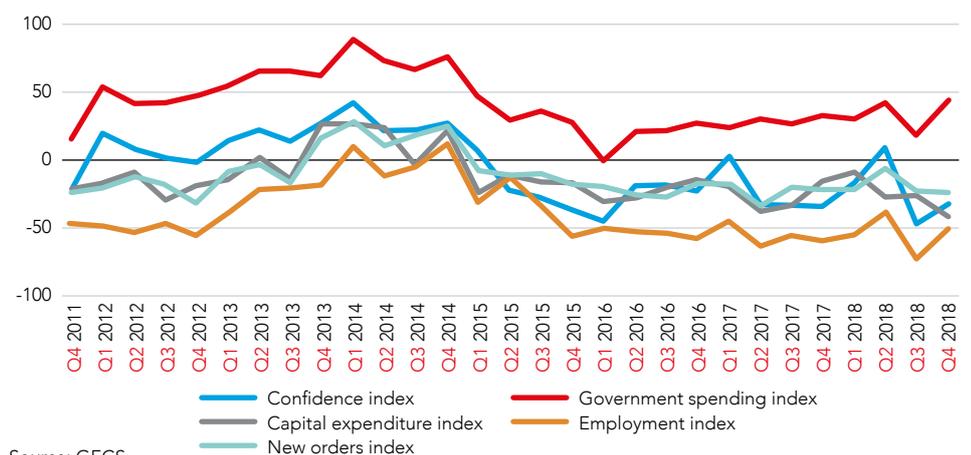
The economy is likely to perform relatively strongly over the next year or so. Volatility in oil prices may be a drag on the economy but strong fundamentals mean fiscal policy will not need to be tightened dramatically. In addition, the US dollar has lost momentum as interest rate expectations have fallen, limiting the degree of monetary tightening (the currency is pegged to the US dollar). In addition, increased spending on infrastructure projects, including for the World Expo in 2020, will underpin growth. Indeed, it is notable that, despite a dip in overall confidence, there was a sharp improvement in the government-spending sub-component, while the new orders sub-component was stable.

Chart 21: Confidence improves despite falling oil price



Source: GECS

Chart 22: Government spending to support UAE growth



Source: GECS

Confidence in Africa also fell back in the third quarter, and is now well below the all-time high of the first quarter.

Saudi Arabia in Focus

Saudi Arabia’s economy is likely to weaken over the next year or so, with several key factors likely to drag on growth. The first is the recent OPEC production cuts. Monetary policy is also likely to be tightened further (the Saudi currency’s peg to the US dollar means monetary policy is determined largely by the US Fed). Fiscal policy is also likely to be tightened. The fall in oil prices is likely to lead to a decline in government revenues, and government spending will need to be cut to offset lower revenues.

The poor prospects are reflected in the GECS confidence index, which was negative in Q4. New orders improved slightly, but also remain in negative territory.

AFRICA

Nigeria in Focus

The poor near-term outlook for Nigeria is reflected in our GECS score, which shows confidence fell in the final quarter of 2018 and is now at its lowest level in a year. The recent fall in oil prices will weigh on exports and government revenues. While the non-oil economy has been improving, consumer demand is soft, restrained by a 23% unemployment rate. Overall GDP growth this year is likely to be very modest at between 2% to 2.5%. Presidential elections in February increase uncertainty in the near term but the outcome may result in more business friendly policies.

Chart 23: Mixed picture in Saudi Arabia

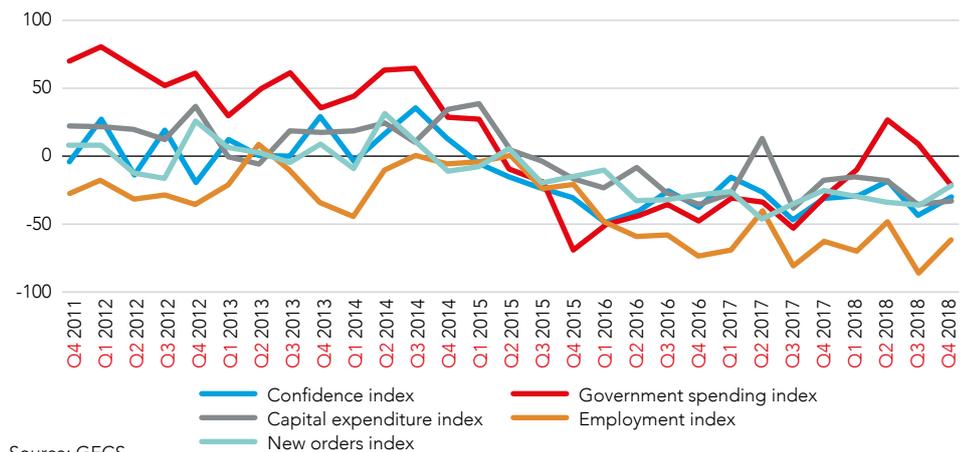
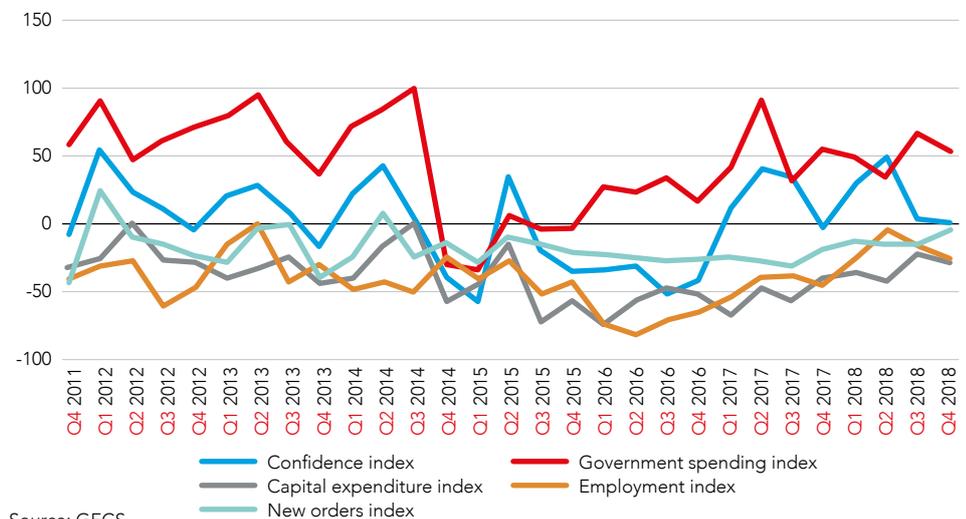


Chart 24: Headwinds facing Nigeria



After a strong 2018 the global economy is losing momentum going into 2019, with slowing growth in both the US and China.

After a strong 2018 the global economy is losing momentum going into 2019, with slowing growth in both the US and China. In the US the waning impact of last year's fiscal stimulus combined with higher interest rates will moderate growth this year – after near 3% expansion in 2018. The slowdown should be relatively gradual, however, with GDP growth in the region of 2.5% this year. There is no sign yet of a softening in the extremely buoyant labour market. So while the Federal Reserve may limit further interest rate increases this year, an easing of monetary policy is highly unlikely. But there are concerns further out with a risk of below-trend growth in 2020 that would trigger easier monetary policy.

China's economic growth is also likely to continue to weaken, at least early in 2019. The lagged effect of previous monetary tightening is the main cause of this, exacerbated recently by reduced business confidence due to trade tensions with the US. But the authorities have now responded and started to loosen monetary and fiscal policy and this should stabilize growth from around the middle of the year onwards. For now the Peoples Bank of China (PBoC) is reluctant to reduce interest rates for fear of exacerbating the problem of excessive private sector debt levels. But policy is being eased through local government bond issuance. Meanwhile, the trade issue is in abeyance but has certainly not gone away – an extension of the current truce in tariff escalation beyond March is likely given the complexity of the issue.

The outlook in the Eurozone has weakened, although temporary negative influences in Germany and France are clouding the picture. A slowing global economy and consequent weaker export demand is the biggest downside risk. It is also unclear what effect the ending of the ECB's asset purchase programme in December will have on monetary and liquidity conditions. Interest rates will remain close to zero through 2019. In addition, an improving employment market and faster wage growth should help to support private consumption, especially as inflation will be subdued.

The key risk to the outlook is the situation in Italy. If investors lose confidence in Italy's ability to repay its debts, it could cause bond yields to spike, triggering another crisis. "That's one of the big question marks for next year – whether the slowdown in Europe is going to be sustained, which is the view we are coming around to, or whether it's going to be just temporary," says Kenningham. "We might see growth pick up a bit next year, perhaps helped by lower oil prices, which will help boost real household incomes," he adds. The first quarter [of 2019] will continue to be fairly weak. We reckon that GDP growth might be only about 0.3%, so annualized rates of just over 1%, which would be at or below the potential growth rate for the Eurozone."

The UK outlook for 2019 is almost impossible to forecast as so much depends on the Brexit outcome. One reasonably confident prediction is that the first quarter will be weak as uncertainty weighs on economic activity, especially investment. However, beyond the end of March when the UK is due to leave the EU, projections are pure conjecture. For the year as a whole GDP forecasts range from zero under a no deal Brexit or 1.5% or more under a deal scenario that significantly reduces uncertainty. Notwithstanding the huge Brexit cloud hanging over the economy, the fundamentals are in good shape with inflation drifting down towards the 2% target, a buoyant labour market and a revival in wage growth.

For emerging markets (EM) the outlook has improved in recent months, helped in most cases by two developments – a recovery in their exchange rate against the US dollar and a sharp fall in the oil price. Many EM currencies fell sharply through much of 2018 as US interest rate increases pushed the dollar higher. This had the effect of squeezing those countries with dollar-denominated debt as well as raising inflation concerns as import prices jumped in response to weaker exchange rates. Recently, however, these fears have eased and many EM currencies have regained much of the ground previously lost against the dollar, lifted as the prospect of

Global growth in 2019 will fall short of recent years when it has averaged around 3.5%. The US and Eurozone will slow this year and the outlook in the UK is extremely uncertain.

significant further increases in US interest rates diminished. In addition, oil prices (Brent crude) fell by almost one-third during the last three months of 2018 from a peak of over \$80pb to just under \$55pb, reducing import costs for oil importers. (See chart.) For many EMs a stronger currency and a big fall in the oil price represents a significant boost to their terms of trade as well as an easing of debt servicing pressures.

Despite this improvement in the outlook EM economies are vulnerable to a slowdown in the wider global economy especially those with a greater export dependence. There remains the risk of an escalation in protectionism, predominantly driven by a trade war between the US and China. As an analysis in the October 2018 OECD Economic Outlook showed, the direct impact of increased tariffs on the global economy is relatively limited. But there can be a significant additional effect caused by increased uncertainty (measured by a rise in risk premia) which reduces investment spending. The OECD estimates the maximum impact of a full scale US-China trade war including increased uncertainty to be to reduce

global GDP over the three years to 2021 by a total of 0.8 percentage points compared to the no trade war scenario – with around half of the effect from increased uncertainty. So on average global growth is reduced by just under 0.3 percentage points a year, growth which in 2018 was around 3.6%. This is not trivial, but nor is it of sufficient magnitude to warrant fears of global recession. Other risks include Chinese bank failures, a no-deal Brexit and a prolonged shutdown of the US government. There is the ever present danger of a euro-zone sovereign debt crisis, although for the most likely candidate, Italy, the debt issue appears to have been delayed for at least a year or so.

Global growth in 2019 will fall short of recent years when it has averaged around 3.5%. The US and Eurozone will slow this year and the outlook in the UK is extremely uncertain. With China slowing too in the near term, the world's largest economies are losing momentum. Elsewhere there is the prospect of faster growth, in some cases generated by economic reforms, particularly in Latin America and Africa. We look for global growth to hold up above 3% this year.

Chart 25: Oil price tumbles



Source: US Energy Information Administration

Appendix I:

Economies covered by Q4 survey responses

North America	Middle East	Asia Pacific	Central & Eastern Europe	South Asia	Western Europe	Africa	Caribbean	Central & South America
Canada	Bahrain	Australia	Bulgaria	Afghanistan	Cyprus	Cameroon	Barbados	Belize
Mexico	Egypt	China, People's Rep of	Czech Republic	Bangladesh	Finland	Ethiopia	Bermuda	Brazil
USA	Iraq	Hong Kong SAR	Hungary	India	Germany	Ghana	Grenada	Columbia
	Israel	Indonesia	Moldova	Kazakhstan	Greece	Ivory Coast	Guyana	Costa Rica
	Jordan	Japan	Poland	Maldives	Ireland, Republic of	Kenya	Jamaica	
	Kuwait	Korea, Republic of	Romania	Nepal	Italy	Liberia	Puerto Rico	
	Lebanon	Malaysia	Russia	Pakistan	Luxembourg	Malawi	St Vincent	
	Oman	New Zealand	Slovakia		Malta	Mauritius	Trinidad & Tobago	
	Palestine	Philippines	Ukraine		Netherlands	Namibia		
	Qatar	Singapore			Spain	Nigeria		
	Saudi Arabia	Vietnam			Switzerland	Sierra Leone		
	United Arab Emirates				Turkey	South Africa		
					UK	Sudan		
						Tanzania		
						Uganda		
						Zambia		
						Zimbabwe		

ACCA, IMA and the global economy

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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.

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