Global economic conditions survey report: Q2, 2018
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ACCA supports its 200,000 members and 486,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of 101 offices and centres and more than 7,200 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.

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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 Q2 2018 GECS took place between 1 and 14 June 2018 and attracted 1,002 responses from ACCA and IMA members around the world, including more than 80 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.
Although it remains high by recent standards, economic confidence dipped from its Q1 peak in the second quarter of 2018. The slight fall in confidence comes amid signs that the global economic recovery that began in late 2016 is starting to lose momentum. It also reflects mounting fears of a trade war between the US and China, which has weighed heavily on sentiment recently.

North America was once again the most confident region in the world in the second quarter, followed closely by Africa. These two regions were the only parts of the world economy where the number of people expecting conditions to improve exceeded those who expected conditions to worsen. Central & South America was the least confident region.

Confidence in the US was flat in the second quarter of the year, but it remains high by recent standards. This is reflected in the official data, which suggest that the massive tax cut at the start of the year is leading to higher consumption. There are also signs that, with the unemployment rate at its lowest since 2000, a tight job market is feeding into faster wage growth; this in turn is providing a further boost to consumption.

The picture in the UK is a sharp contrast. Economic confidence plummeted in the second quarter and is now well below the historical average. The sharp fall is consistent with the latest GDP data, which show that the economy grew by just 0.2% in the first quarter. It also comes alongside challenges faced by the UK in coming to an agreement with the rest of the European Union on the terms of its exit from the bloc.

Sentiment in China also fell sharply in the second quarter. The drop comes amid growing fears of a trade war with the US. In addition to the tariffs the US has already imposed on China, in late June the US administration threatened to impose another US$200bn of tariffs on Chinese goods. The move prompted a sharp fall in the stock market, which having fallen 20% from its recent high is now in bear-market territory.

Increased costs remain respondents’ main concern, cited by 61% of respondents (up from 54% in Q1). Price pressures have been building as the global economic recovery has continued, so this is not a surprise. Second on the list of worries was falling income (cited by 34% of respondents). Concerns about customers and suppliers going bankrupt were cited by just 19% and 10% of respondents respectively.

In terms of how businesses are responding to the changing economic environment, 40% say they are laying off staff, which is unchanged from last quarter, while 32% say they are considering scaling back investment in capital projects. Just over a quarter (27%) of respondents are considering hiring more staff, and 23% are looking to expand investment in capital projects.
1. Global level analysis

Economic confidence fell slightly in the second quarter of the year.

In the GECS, economic confidence fell slightly in the second quarter of the year, which is consistent with hard data showing that the global economic recovery has slowed somewhat since the start of the year. However, confidence is still high by past standards, and a sharp slowdown in economic growth is unlikely in the months ahead.
North America was the most confident part of the world economy in the second quarter, followed by Africa, which was also unchanged from Q1. Central & South America was the least confident part of the global economy.

As in Q1, North America was the most confident part of the world economy in the second quarter, followed by Africa, which was also unchanged from Q1. Central & South America was the least confident part of the global economy.

Confidence in OECD and non-OECD countries fell in Q2, and in both cases is now below zero (there were more people feeling negative about the outlook than positive). However, confidence remains relatively high by past standards.

**Chart 2: North America is the most optimistic region**

![Chart 2](source: GECS)

**Chart 3: In OECD countries, confidence drops below zero**

![Chart 3](source: GECS)
RISING US TREASURY YIELDS AND PANIC IN EMERGING MARKETS

A sharp rise in US treasury yields, which broke through 3% in May, have sent shockwaves through some emerging markets, and brought to mind 2013’s taper tantrum.

The main factor behind the rise in yields has been the strong economic recovery, which has raised market expectations of US interest rates. But as yields in the US have risen, emerging markets with big external deficits have found themselves in deep trouble as outflows of foreign capital have put their currencies under pressure.

The impact has been worst in Turkey and Argentina. Not only do they run large current-account deficits, but they also suffer from high inflation and have large levels of foreign-currency debt. Since the start of the year, the Turkish lira is down 17%, while the Argentine peso has fallen by 33%.

Policymakers in Argentina and Turkey have been quick to respond. The central banks of both countries have hiked rates aggressively over the past few months (Turkey’s by 9.75 basis points; Argentina’s by 1,525 basis points). Higher interest rates have helped to steady the currencies of these two countries, but that stability is likely to come at a cost in terms of growth.
There is a chance that Turkey and Argentina will fall into recession later this year, although financial markets in Turkey appear to have welcomed the victory for President Erdogan and his AKP-led alliance in Turkey election at the end of June. There is a risk of further falls, however, if, as expected, Erdogan uses his new powers to push for looser monetary and fiscal policy.

Turkey and Argentina have been the two economies worst affected by the US yield rise, but other countries are not immune. Mexico, Indonesia, India and the Philippines have all tightened monetary policy in recent weeks in a bid to support their falling currencies. While tighter policy is unlikely to drag these countries into recession, higher interest rates will act as a drag on their prospects over the coming quarters.

“We’re forecasting currencies in emerging markets on the whole to weaken a bit further, asset prices to be soft, and equity markets to not do particularly well,” says Andrew Kenningham, Senior International Economist at Capital Economics. “But we should distinguish between those financial market effects and the outlook for the economies themselves, which overall are still reasonably good. Most economies have much better macro frameworks than before; they’ve got floating exchange rates and relatively low levels of dollar debt.”

Worries Mount about a China-US Trade War

Fears of a full-blown trade war between the US and China have intensified after the US administration threatened to impose an extra US$200bn of tariffs on Chinese goods, which is in addition to the tariffs of US$34bn on goods that came into effect on 6 July. The latest announcement has weighed heavily on financial markets across the world, with China and other stock markets in Asia faring the worst.

The key question now is what happens next. The latest threats may simply be designed to extract more concessions from China in the next round of trade negotiations. But there is also a risk that they herald a further escalation of the situation. China has already said that it will respond to the tariffs. Although it only imports US$180bn of goods from the US – and therefore cannot respond in kind – it can increase non-tariff barriers by making life more difficult for US companies operating in China.

“It’s a big shadow hanging over the world economy, but we think the measures announced so far are not enormous,” says Kenningham. “If you look at what’s been proposed, it’s pretty small compared to the overall Chinese economy, and even as a share of Chinese exports to the US it’s not yet huge.”
Experience shows that China can inflict serious economic pain on its trading partners. Korean and Japanese companies have endured severe difficulties after disagreements between their governments and China’s. Car companies could experience disruptions trying to import spare parts; China could send fewer valuable tourists and students to the US; and US agricultural imports could be subject to heightened health checks. “It’s a real threat now, because things are being ratcheted up on both sides,” says Claus Vistesen, Chief Eurozone Economist at Pantheon Macroeconomics. “If it continues, you will see investment expectations fall and then eventually investments start to decline. We’re not there yet, but it’s definitely a threat to global growth.”

If the latest tariffs do go ahead, they would represent a significant escalation in tensions. But while there is no room for complacency, it is not yet time for panic. Global trade growth is holding up well: world trade volumes increased by 0.7% in April on the previous month and are still growing by around 4% year on year. Exports from key Asian economies, which are heavily integrated into global supply chains and act as bellwethers of the global economy, are also continuing to grow at healthy rates.

Finally, while the US may be threatening some of its key trading partners with increased tariffs, most other parts of the world remain committed to free trade. It was notable that despite the US pulling out of the Trans-Pacific Partnership in 2017, not only have the 11 remaining countries pushed ahead and ratified the deal, but other countries are also looking to join the new trade body.

Chart 6: World trade growth volumes, year on year

Source: CPB World Trade Monitor
ITALY’S ELECTION AND THE ECONOMIC IMPLICATIONS

Financial markets in Italy are experiencing some turmoil since late May after the country’s two populist parties, the Five Star Movement and the Northern League, announced they had agreed to form a new coalition government.

The financial markets’ concern is hardly a surprise. Italy’s government debt is already 130% of GDP, and if implemented in full the policies of the main parties would be very expensive. The most costly is a ‘citizen’s income’, which would be paid to everybody in a low-paid job or unemployed. Other expensive policies include reforms to the pension system and cuts to income and corporation tax.

If all the pledges are carried out, they would cost the equivalent of around 6% of GDP. Given the already high level of debt, this could spark panic in the country’s bond market (which is already the third biggest in the world after Japan and the US), a run on the country’s banks, and sanctions from the EU.

It therefore seems unlikely. Instead, these policies are likely to be watered down, but alongside some fiscal stimulus. The two parties have generated controversy with their populist policies, but there is some realism in their politics. For instance, despite having previously called for Italy to leave the Eurozone – a step that could be catastrophic for the country’s economy – in March’s election both parties campaigned to remain in the monetary union.

A small stimulus package would provide a much-needed short-term boost to growth. Despite the recent recovery, Italy’s economy is now smaller than it was just before the global financial crisis, and higher fiscal spending should help to reduce the country’s unemployment rate, which is currently over 10%.

Growth may improve in the short-term, but the government appears to have little idea how to tackle Italy’s longer-term problems. To improve the country’s long-term prospects, more needs to be done to increase the flexibility of its job market and improve its education system and infrastructure – especially in the south. And the banking sector, beset by bad loans, needs reform. The new government, however, has no plans for any of these problems.

Chart 7: Italian 10-year government bond yields (%)

Source: Bloomberg
3. Regional analysis

Confidence in North America fell slightly in Q2, but it is still fairly high compared with the past few years.

**NORTH AMERICA**

Confidence in North America fell slightly in Q2, but it is still fairly high compared with the past few years. The fall was mainly due to a sharp drop in Canada, where confidence had reached a record level in the first quarter. In the US, meanwhile, confidence was virtually unchanged in Q2 and remains high.

**The US in focus**

In the US, confidence was broadly unchanged in Q2 and is high by past standards, with the proportion of respondents feeling more confident about the future exceeding – by nine percentage points – those who feel less confident.

That confidence is consistent with the latest hard data, which show that after a difficult first quarter the economy has rebounded strongly. Despite concerns about the widening fiscal deficit, there are signs that the recent tax cut is leading to an increase in investment and consumption. Meanwhile unemployment is at multi-year lows, and wage growth is starting to accelerate.

In terms of the GECS sub-components, the biggest change was in government spending, which fell sharply. During the 2016 election campaign Donald Trump promised to push for a big increase in infrastructure spending, but nothing has yet been achieved. In contrast, there were modest increases in the capital spending and employment sub-components – both of which are at relatively high levels.

“It’s an open question how long the boost from the fiscal stimulus will last. Some forecasters think it might last for two or three years, and be spread out, as consumers only slowly step up spending to take account of their high disposable income,” says Kenningham. “Our forecast is that it will come through much more quickly, and within a year it will be fading.”
WESTERN EUROPE

Overall confidence in Western Europe fell sharply in the second quarter of the year, and it is now lower than its average since the GECS began. The number of respondents who feel pessimistic about the future now exceeds by 13 percentage points those who are more confident; the equivalent figure for Q1 was 3 percentage points.

The drop in confidence may prove temporary, however. The economy’s recent poor performance may be a result of factors that include bad weather, industrial action, outbreaks of flu, and concern over the outlook in Italy – all of which depressed output. There are also trade factors in the mix. “In Europe there was a very abrupt slowdown this year,” says Dario Perkins, Managing Director, Global Macro, at TS Lombard. “I think what’s happened is the economy has slowed down in a more sustained way. I think partly it is a China story, because European exports to China are now contracting. And because Europe is a big importer of oil, as the oil price goes up without wages picking up you get a squeeze on consumers.”

Things should improve in the second half of the year, and some of the latest survey data – notably for employment intentions and export orders – look reasonably positive. And despite the drop in confidence overall, the main GECS sub-components all held up reasonably well in Q2. There was an especially strong rebound in the government spending sub-component, which is now at its highest level since the third quarter of 2014. This perhaps reflects the easing of fiscal austerity across Western Europe now that fiscal positions have been brought down to more sustainable levels. The capital expenditure sub-component improved slightly (but remains in negative territory), while the employment component was broadly unchanged.
Economic confidence in the UK fell sharply in Q2. This is consistent with the most recent data – which show that the UK’s economy is struggling.

The UK in focus
Economic confidence in the UK fell sharply in Q2. Confidence has been volatile since the vote to leave the EU two years ago, but now the fall in confidence is consistent with the most recent data – which show that the UK’s economy is struggling.

While bad weather might have been blamed in part for the sharp drop in GDP growth in the first quarter to just 0.2% quarter on quarter, the underlying uncertainty over the outlook of the Brexit negotiations looks to be weighing on prospects. Recent weeks have seen a number of big manufacturing companies, including BMW and Airbus, saying that they might be forced to relocate some manufacturing capacity out of the UK.

“I think there is a very big squeeze on consumption coming from the sudden spike in inflation,” says Perkins. “Consumers slowed their spending, but they also cut their savings quite a lot. That’s what we’re seeing – a kind of adjustment to a slightly higher savings rate. Which means that consumption stays a bit weaker for longer. I think it’s very difficult for people to know what’s going to happen. Clearly the constant beat is bad news in the press and the realisation that even soft Brexit isn’t a particularly brilliant outcome.”

All of the main GECS sub-components remained in negative territory in Q2. There was a recovery in the government spending sub-component, however, which reached its highest level since the third quarter of 2014. This might be explained by the fall in the UK’s budget deficit, which makes a slight easing of fiscal austerity over the coming years more likely.

The employment sub-component, meanwhile, reached its highest level since the GECS began. And despite the poor performance of the economy since the Brexit vote, the job market has remained resilient: at 4.2% in April, the unemployment rate is at its lowest rate since 1975.

“We think there’ll be a bit of a rebound, but the data have been somewhat mixed,” says Kenningham. “The retail sales figures have been good, but industrial production figures have been weak, for example. We think consumption will pick up as households benefit from the falling inflation rate.”

Chart 11: UK confidence falls back on Brexit fears

Source: GECS
The recent recovery in confidence in the Irish economy came to an abrupt end in Q2, with the country recording its sharpest fall in confidence since the series began.

This seems counterintuitive, since the latest economic data suggest that Ireland is continuing to perform reasonably well. Yet there are growing risks to the outlook. The housing market is again showing signs of overheating: prices are rising rapidly and mortgage lending is once again growing at double-digit rates. Another risk is the uncertainty around the Brexit talks – there are concerns that the UK and the EU will fail to come to an agreement on the Irish border. The UK is by far Ireland’s biggest single export market, and a ‘hard Brexit’ would cause significant disruption for the economy.

Alongside overall confidence, all of the main sub-components fell last quarter, and capital spending and employment are now in negative territory. The employment sub-component is now at its lowest level since the second quarter of 2014. Although the unemployment rate in Ireland has been falling steadily over the past few years, and is below 6%, it is quite a bit higher than in other developed economies, including the UK, the US and Germany.

Chart 12: Unemployment rates in Ireland, the UK, the US and Germany (%)

Source: Bloomberg

Chart 13: Ireland’s recovery in confidence comes to an end

Source: GECS
In Central & Eastern Europe, economic confidence remains deep in negative territory, although it improved in Q2. Part of the reason for that rebound is an improvement in confidence in Russia, the region’s biggest economy.

Overall, Central & Eastern Europe is performing well, but the region is facing headwinds. Its strong recovery over the past few years has led to a sharp fall in unemployment, which has caused wages to start rising. Monetary policy has started to be tightened, which will weigh on prospects. Another headwind is slower export demand – especially from the Eurozone, its main trading partner, where growth now looks to have peaked. A planned cutback in EU structural funding for infrastructure investment will also weigh on spending – and on exports from Central & Eastern Europe – over the next few years.

Anxiety about rising inflation was apparent in Q2, with 62% of respondents citing higher costs (for both prices and wages) as their main concern. Meanwhile, despite a sharp fall in the employment sub-component, rebounds in the government spending and capital spending sub-components helped to drive the improvement in confidence levels overall.

62% of respondents in Central & Eastern Europe cite higher costs (for both prices and wages) as their main concern.
In South Asia, confidence slipped in Q2 for the fourth consecutive quarter, and it is now at its lowest level since the first quarter of 2016. The drop was due to another sharp fall in confidence in Pakistan, where the outlook for the economy has continued to worsen and confidence is at its lowest level since records began.

Pakistan faces major economic challenges over the next year as it aims to overcome a mounting balance-of-payments crisis. The currency has been devalued three times since late 2017, interest rates have been increased aggressively and foreign-currency reserves have fallen sharply. There is a general election in late July, and the country is likely to need further IMF loans to steady the situation.

Pakistan’s dismal outlook is also reflected in the three main sub-components, which all fell again in Q2. There was a notably sharp fall in the government spending sub-component, which is now at its lowest level since the GECS began. This probably reflects the fact that whoever wins July’s election will need to tighten fiscal policy in order to bring down growth and reduce imports.

India in focus
Meanwhile, the outlook is much brighter in India, where confidence is now at its highest level since the second quarter of 2015. Growth, which reached an impressive 7.7% year on year in Q1, is being supported by rapidly increasing incomes, which are helping to support consumption, and a loosening of fiscal policy ahead of key state elections. The introduction of the Goods and Service Tax has also boosted confidence and growth prospects by encouraging more trade between different states. Although India’s central bank recently hiked interest rates in response to rising inflationary pressure, the tightening cycle is likely to be gradual and not enough to knock the economy off course.

India’s government spending sub-component increased sharply in the second quarter, and is now at its highest level since the first quarter of 2016, which

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**Chart 15: In South Asia, confidence slips again**

![Graph showing confidence index, government spending index, capital expenditure index, and employment index for South Asia from Q4 2011 to Q2 2018.](Source: GECS)

**Chart 16: India surges ahead of Pakistan on confidence**

![Graph comparing confidence of India and Pakistan from Q4 2011 to Q2 2018.](Source: GECS)
suggests that the fiscal policy is likely to remain loose for a while. There were, however, falls in both the capital spending and employment sub-components.

**ASIA PACIFIC**

Economic confidence in the Asia Pacific region dropped back slightly in Q2. However, confidence in Q2 was the second highest on record, and confidence overall remains higher than many regions.

This pattern fits with the overall economic data from the region, which suggest that although growth has slowed from its peak in the middle of 2017, Asia Pacific is continuing to grow pretty strongly. For the region’s smaller, trade-dependent economies, however, such as Thailand, Vietnam and Malaysia, strong exports have been the main economic driver over the past few years, so these economies are likely to slow gradually over the next few quarters as global growth eases off.

That said, the further relocation of low-end manufacturing from China and the development of the ASEAN trading bloc may help to offset some of this decline.

There was a sharp drop in the government spending sub-component, although it remains in positive territory. An imminent loosening of fiscal policy is unlikely, but the authorities could offset slowing exports by boosting government spending. The capital spending and employment sub-components, meanwhile, remain fairly stable but in negative territory.

**China in focus**

Confidence in Asia Pacific’s biggest economy dropped back in Q2 and is now at its lowest level in two years. The outlook for its economy is held back by the growing risk of a trade war with the US, after the latter threatened it with further tariffs. Although China’s economy was already slowing before the tariffs were announced, they are a further headwind.
In the Middle East, confidence rebounded further in the second quarter of the year and is now at its highest level since Q2 2015.

“The Chinese economy, in some sense, depends more on the U.S. than the other way around, and sometimes the market is just reflecting that in a stronger dollar,” says Vistesen. “The Chinese economy, however, was slowing before this started.”

Until the escalation of the trade spat with the US, the Chinese economy looked to be cooling gradually as the government tried to engineer a soft landing in the face of mounting risks in the financial sector.

“China has clearly slowed down, and I think we’re starting to see some ripple effects of that in the global economy,” says Perkins. “It’s not a serious slowdown like those periodic slowdowns we had over the last few years. It seems to have slowed down global trade, global manufacturing.”

Andrew Kenningham agrees that there has been a slowdown. “The Chinese authorities are happy with a slower growth rate than in the past,” he says. “It used to be said they needed 10% annual growth to absorb workers leaving rural areas, and prevent a buildup of unemployment. That migration has slowed. And they’re more aware of the financial stability risks of growing excessively fast. We think they’re pretty happy with de facto growth in the order of 5%.”

The government spending and employment sub-components in China both dipped slightly in the second quarter, but there was a slight rebound in the capital spending sub-component, which could reflect hopes that policy will be loosened over the coming months as the authorities try to offset the impact of the latest US tariffs.

**THE MIDDLE EAST**

In the Middle East, confidence rebounded further in the second quarter of the year and is now at its highest level since Q2 2015.

The key factor behind the recovery in confidence is the sharp rise in the oil price, which reached a peak of US$80 per barrel in late May, compared with a low of just US$35 per barrel at the start of 2016. The higher oil price has caused an increase in fiscal revenues, which has led to an easing in fiscal austerity.

Some countries, including Saudi Arabia, have recently announced stimulus packages, which should provide a boost to growth. Higher oil prices have also led to an increase in export revenues, which has bolstered the current-account position of Middle Eastern countries. A few years ago, the dollar pegs of a number of Gulf countries looked under threat; now, their exchange-rate regimes look a lot more secure.

The outlook for these economies will continue to be driven in large part by the oil price. The recent OPEC deal, for instance, which was agreed in late June and saw member countries agree to raise production, is likely to depress prices over the coming months, which will probably weigh on growth and cause confidence to drop back.

**Chart 19: In the Middle East, confidence rebounds with the oil price**

![Chart 19: In the Middle East, confidence rebounds with the oil price](image-url)
The breakdown of the sub-components shows a further increase in the government spending sub-component, which is consistent with the further easing of fiscal austerity. There was, however, a fall in the capital spending component, which suggests that companies are not confident that oil prices will remain high and are reluctant to make long-term investments. And although the employment sub-component improved, it remains deep in negative territory.

**The UAE in focus**

In the UAE, confidence improved further in the second quarter of the year, and is now at its highest level in three years. As with the rest of the Middle East, higher oil prices were a key factor behind the recovery in confidence, but extra spending related to the World Expo, which is being held in Dubai in 2020, also helped, along with an easing of fiscal austerity.

Confidence should remain fairly high over the coming quarters, but challenges are mounting. The imposition of a value-added tax at the start of 2018 has pushed up inflation, which will weigh on growth by depressing consumers’ purchasing power.

Higher interest rates in the US will also drag on prospects. Because the UAE’s exchange rate is pegged to the US dollar, local interest rates closely track those in the US. The US Federal Reserve has raised rates twice this year already, and is likely to raise them by more over the coming quarters.

The sub-components in the UAE were similar in Q2 to the broader Middle East. The government spending component is now at a multi-year high, while the capital spending component dropped back and the employment index remains deep in negative territory.

[Chart 20: The UAE’s confidence is at its highest in three years]

Source: GECS
AFRICA

In Africa, economic confidence fell back in the second quarter of 2018 – but from a record high in Q1. Confidence, however, is still high by the standards of recent quarters, and Africa is the second most confident region after North America. The breakdown shows an improvement in the employment sub-component, but a slight drop in the capital expenditure and government spending sub-components.

The fall in confidence in Q2 is consistent with the latest hard data, which suggest that all of Africa’s key economies had a difficult start to the year. South Africa was the worst performer – its economy contracted in Q1.

It gained a new president, Cyril Ramaphosa, at the start of the year, which raised hopes that the economy could be about to take a turn for the better. But while the new president has pushed through some useful reforms in his first six months in power, including a well-received budget and a clean-out of underperforming officials from key positions, the disappointing start to the year underlines the scale of the task facing the new president. Elsewhere in Africa, Nigeria, Angola and Kenya all also had a difficult start to the year.

Chart 21: In Africa, confidence dips slightly after a record Q1

Source: GECS

Chart 22: South Africa’s GDP (quarter on quarter)

Source: Statistics South Africa
The outlook for the global economy remains positive – despite signs that economic growth in some key parts of the world economy have slowed since growth reached a peak in the second half of 2017.

Despite concerns about the impact of the administration’s protectionist measures, the US economy remains strong, helped in part by the recent tax cut which has boosted household incomes and business sentiment. The Fed is likely to continue tightening monetary policy over the next couple of years, but with inflationary pressures increasing only slowly, the pace of tightening is likely to be gradual.

“The US seems to be picking up and the rest seems to be slowing down,” says TS Lombard’s Dario Perkins. “From that, you get a strong dollar. A strong dollar is probably a bigger worry for the rest of the world than it is for the US: every time the dollar goes up, you get this tightening in global financial conditions – a lot of global trade is invoiced in dollars.”

The Eurozone had a slow start to the year, which raised fears that the region’s economic recovery could be running out of steam. But recent survey data have been more positive, and growth should hold up fairly well – helped by an easing of fiscal austerity, low interest rates and strong export demand. The key risk to the outlook is the uncertain political outlook in Italy.

“Now I think we’re going to be stable for the next couple of quarters,” says Pantheon Macroeconomics’ Claus Vistesen. “However, we see signs of the manufacturing sector reporting much weaker growth in new export orders.”

Vistesen also points to another challenge for the EU. “Draghi is replaced next year,” he says. “I cannot tell you how much risk there is around that announcement, because Draghi has been so important for the ECB in terms of laying down the law in terms of interest-rate policy, and now it’s all up for grabs.”
The recent underperformance of the UK is continuing, with growth slowing sharply at the start of the year. While some of this slowdown was due to bad weather at the start of the year, uncertainty about Brexit looks to be damaging investment. The sharp fall in the pound has led to a rise in inflation, which has held back real wages, yet there is little sign that the fall is providing the hoped-for increase in exports. The Bank of England recently paused its monetary policy tightening cycle because of the weak economic recovery, and even if rates are nudged gradually higher over the next year they are likely to remain at close to their historic lows for some time to come.

China’s economy, meanwhile, is holding up. An easing of the pollution controls that weighed on growth during the winter has provided a boost to economic activity, while the central bank has recently loosened policy by cutting its reserve requirement ratio. This should further help growth.

“We believe the Chinese economy will continue to slow, but will do so only fairly gradually over the coming months,” says Kenningham. “On our measure, we think growth is going to be around 4.5% or so for 2018.”

The rest of Asia’s emerging economies have continued to perform well. Although export growth has slowed a little over the past year, they are expanding, which is helping to support demand in the region’s most trade-dependent economies, such as Taiwan and Malaysia. Policymakers also have the tools to support growth in the event of a trade war between China and the US. Fiscal positions are healthy and could be loosened, while low inflation means that interest rates could also be cut to support demand.

Elsewhere in the emerging world, events have been dominated by the recent turmoil in financial markets, which has contributed to big falls in some currencies – notably Argentina’s peso and the Turkish lira. Growth in those two economies is likely to slow over the coming year as the impact of recent monetary policy tightening feeds through to the rest of the economy.

Finally, rebounding commodity prices have boosted the outlook for the main commodity-exporting countries, namely Brazil, Russia, and those in the Middle East and Africa. The biggest impact is likely to be in the Gulf economies, which are big net oil exporters. These countries will also receive a boost from OPEC’s decision in late June to abandon the individual production quotas that were introduced in November 2016.

Politics, meanwhile, will continue to have an impact on the prospects for several key emerging market economies. In Mexico, for instance, the election of Andrés Manuel López Obrador could set Mexico up for a collision with Donald Trump. And there are concerns in Brazil that October’s presidential elections could lead to a worsening of the country’s already fragile fiscal position.

Overall, while the global economy is likely to remain pretty strong over the next year, a modest slowdown is likely. “We are in a trickier environment,” says Vistesen. “And that’s how investors are positioned for the second half of the year.” As long as a full-blow trade war is avoided, global growth should come in at about 3.5–4% over the coming 12 months.
## Appendix I: Economies covered by Q2 survey responses

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<th>North America</th>
<th>Middle East</th>
<th>Asia Pacific</th>
<th>Central &amp; Eastern 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.

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