

The ACCA logo is a red square with the letters 'ACCA' in white, bold, sans-serif font.

ACCA

The background of the cover is a low-angle shot of several modern skyscrapers with glass facades. The sky is a clear, pale blue. A large, semi-transparent grey rectangle is centered on the page, containing a white square with the title text.

**GLOBAL ECONOMIC
CONDITIONS
MONTHLY SURVEY
AUGUST 2020**

GECS AUGUST 2020

Think Ahead

About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of 227,000 members and 544,000 future members based in 176 countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that supports both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions and preparing us for tomorrow.

Find out more about us at www.accaglobal.com

Introduction

The monthly GECS is intended to give a snapshot of developments in between the main quarterly GECS.

In normal circumstances the economic outlook does not change dramatically from one month to the next. But the current conditions are far from normal: the global economy is facing the worst recession in decades as a result of the COVID-19 pandemic. In many economies the fall in output in the first half of 2020 has wiped out several years of economic expansion. Lockdowns are now being lifted in many countries, at the same time that global infections are reaching record levels. So, we have introduced on a temporary basis a short snapshot survey to be conducted in the intervening months between the quarterly GECS. The five questions in the monthly survey were introduced in the Q2 GECS conducted in the first half of June. The August monthly survey took place between 3 and 10 August and gathered a total of 462 responses: these were sufficient to permit analysis of three key regions – Africa, Western Europe and Asia-Pacific.

Over the last month official data have recorded the true scale of the economic damage in advanced economies during the April to June period when most economies had the maximum lockdown. Measured on a quarter on quarter basis the US economy contracted by 9.3%, Germany by 10.1%, France by 13.8% and Spain by 18.5%. The biggest fall so far recorded came in the UK with a 20.4% quarterly contraction in GDP. In every case these are by far the biggest quarterly

falls in output since such data were first published in the 1930s.

The length and severity of lockdowns is the main determinant of the relative size of the quarterly fall in GDP. (The UK was additionally hampered by having a greater share of ‘social consumption’ than other advanced economies.) It is noteworthy that one of the smallest GDP contractions in Q2 was in Sweden at a mere 8.6%. Sweden had a relatively short duration of what in effect was a voluntary lockdown, focussed mainly on social distancing measures rather than shutting down sections of the economy.

In most advanced economies recovery is now under way – the June monthly GDP data for the UK recorded an 8.7% expansion for example. Survey data, such as monthly Purchasing Managers indices and high frequency data such as credit card usage, restaurant bookings, Apple and Google mobility data all point to continued bounce back in activity and the July to September quarter will record quarter on quarter growth in most cases. But there are increasing concerns about the strength and durability of recovery towards the end of the year. There are three main areas of concern;

Inevitably there is a bounce in activity triggered once economic sectors that were shuttered are reopened. But once this has occurred the effects of continued consumer caution and ongoing social distancing measures will act as a restraint on demand. Again, there appears to be a correlation between the length and severity of the lockdown and the reluctance to return to social consumption

– visiting bars, restaurants, cinemas etc. This caution may persist until there is a vaccine or an effective treatment for COVID-19.

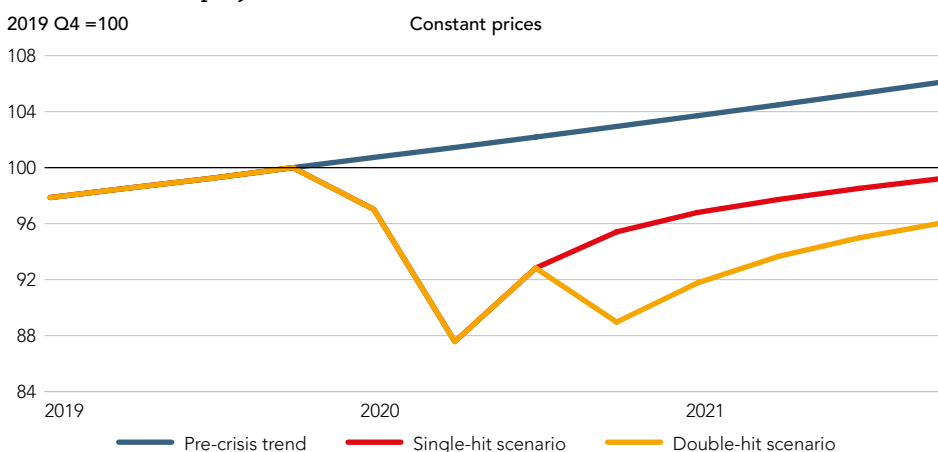
Second, many fiscal support measures, notably furlough schemes that kept large numbers of workers on payrolls with wages subsidised by governments are due to end in coming months. A proportion of furloughed workers will inevitably lose their jobs as these schemes are withdrawn, resulting in potentially big rises in unemployment. Rising unemployment may further undermine consumer confidence, exacerbating the weakness in consumption and demand in the economy – keeping unemployment high.

Finally, there is the possibility of a second wave of the virus that results in governments re-imposing national lockdowns to some degree. Already infection rates are increasing in many countries, notably in the US and more recently in Europe, including France and Spain. The main risk of significant second waves is considered to be in the coming Northern hemisphere winter. In its June *Economic Outlook*, the OECD projected global growth for the effects of a second wave of the virus (see chart 1). This would lead to renewed contraction in the global economy but to a much smaller degree than in the first wave of the pandemic. But a second wave further delays the return of economic activity to pre-crisis levels, already likely to be late 2022 under a no second wave scenario. A second wave would probably also strengthen consumer caution and reluctance to spend, creating a second-round adverse effect.

THERE APPEARS TO BE A CORRELATION BETWEEN THE LENGTH AND SEVERITY OF THE LOCKDOWN AND THE RELUCTANCE TO RETURN TO SOCIAL CONSUMPTION



CHART 1: OECD projections – a second wave



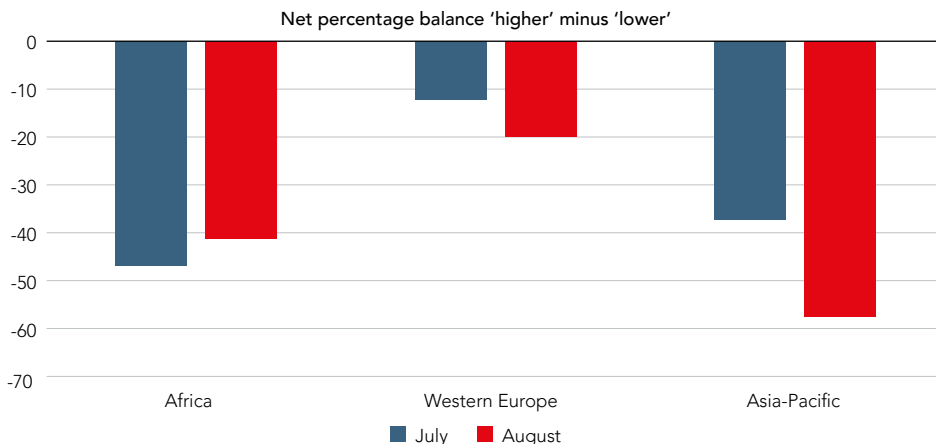
Source: OECD Economic Outlook June 2020

The survey

Orders/new business compared with previous month

All three regions continue to record weak orders in August with an especially marked deterioration in the Asia-Pacific region. This may be a reflection of a perceived deterioration in the global economic outlook, the region being particularly dependent on exports for growth. Western Europe continues to do the best of the three regions as countries in the region emerge from lockdowns.

CHART 2: Change in orders compared with a month earlier

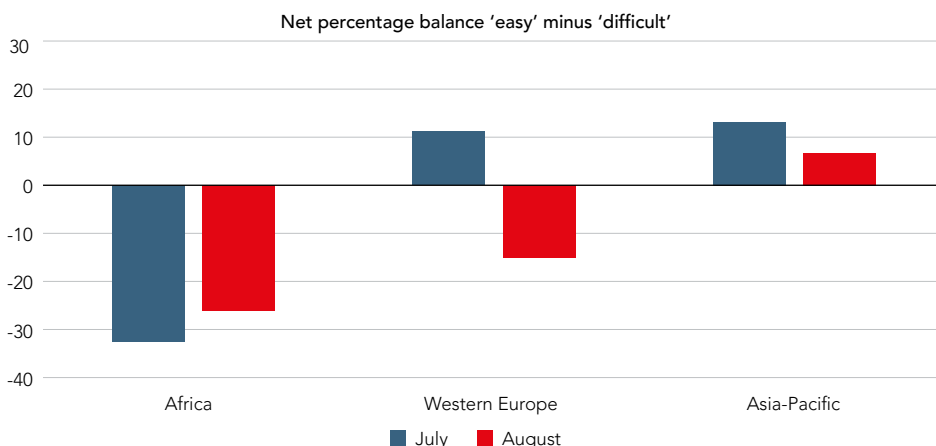


Source: ACCA 2020

Ease of access to finance (INCLUDING GOVERNMENT SUPPORT MEASURES)

Access to finance showed a consistent pattern across regions between July and August. A significant net balance of respondents in Africa say access to finance is difficult while in Western Europe a positive balance say finance is relatively easy. This question explicitly refers to government support measures and the Africa region has much less fiscal capacity to provide support than advanced economies such as Western Europe. The size of fiscal measures deployed in emerging markets and low-income countries is a fraction of that deployed by advanced economies.

CHART 3: Access to finance

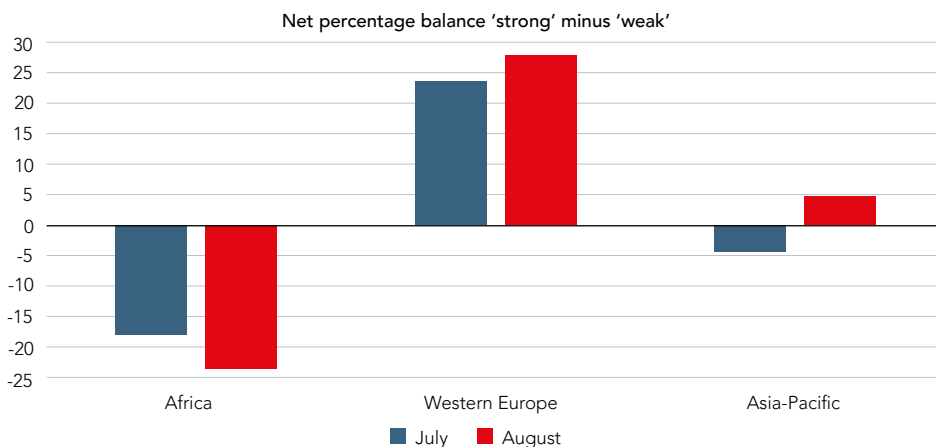


Source: ACCA 2020

Cash flow position

Cash flow patterns are similar to those for access to finance and in August the balances are similar to those recorded in July. Western Europe cash flow remains considerably better than elsewhere. Western Europe has the most extensive furlough schemes and fiscal support measures and business revenues in many sectors are now picking up as lockdowns are eased.

CHART 4: Cash flow

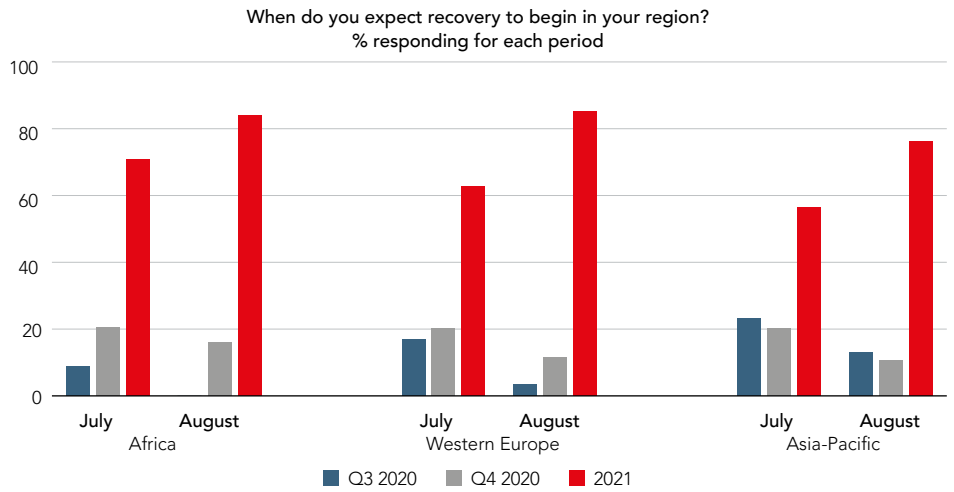


Source: ACCA 2020

Expectations of timing of economic recovery

All three regions showed a significant shift in expectations towards economic recovery in 2021 rather than later this year. In Africa and Western Europe, the percentage saying this is now over 80 per cent. Recent renewed localised lockdowns amid increased infections may have contributed to greater expectations of delayed economic recovery. Even in Asia Pacific the proportion expecting recovery next year is now above 70 per cent.

CHART 5: Expectations of economic recovery



Confidence about organisation's post-crisis prospects

This question asks about changes in confidence after the crisis is over. Compared with July there has been a large fall in confidence in Western Europe and Asia-Pacific. The fall in Western Europe was especially large, perhaps as a result of renewed fears about a possible second wave permanently damaging economic prospects.

CHART 6: Post-crisis confidence

