



Global economic
conditions
survey report:
Q2, 2019

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Introduction

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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 2019 survey took place between 31 May and 13 June 2019 and attracted 1162 responses from ACCA and IMA members around the world including over 100 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.



Executive summary

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The GECS global confidence index in Q2 fell back slightly, after the bounce in Q1.

The GECS global confidence index in Q2 fell back slightly, after the bounce in Q1. But confidence remains above the record low reached at the end of 2018. Meanwhile, the global orders index, which is less volatile than confidence and held up better last year, fell in the quarter to the lowest level since Q3 2016. Together, global confidence and orders suggest weakening global growth in the second half of the year. But fears of a severe global economic collapse or recession are unfounded in current circumstances.

For the fourth quarter in a row, global cost pressures eased, with 45% of respondents citing this as an issue, down from 55% a year ago. This easing of inflation worries is a key factor that gives central banks the scope to ease policy. Meanwhile, the possibility that their suppliers could go out of business was a worry for just 9% of respondents – the lowest level for a year.

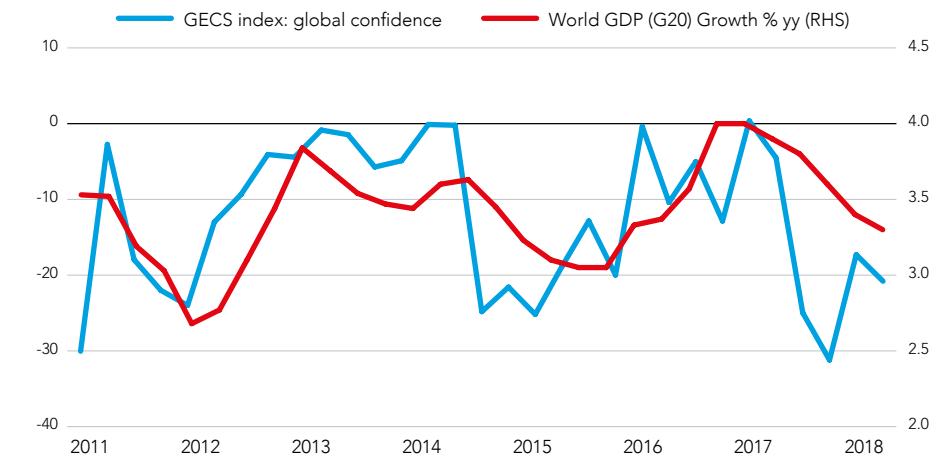
Just 17% were concerned about customers going out of business, the lowest in four years. Both employment and investment intentions increased slightly this quarter and are in line with long-run averages.

Confidence in the US fell sharply in the quarter, to the lowest level in eight years, hit by the resurgence of trade tensions as tariffs were increased to 25% on a range of Chinese imports and – for a while – threatened on Mexico. Meanwhile, orders fell back too, not so dramatically but they are at their lowest level since late 2016. The GECS US orders index is consistent with annualised GDP growth of around 1.5% through the second half of the year. The message continues to be one of slowing GDP growth this year, with recession highly unlikely either this year or next. An almost certain reduction in US interest rates in the second half of this year will help sustain growth.

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of survey respondents cited global cost pressures as an issue, down from 55% a year ago

Chart 1: Global confidence dips, consistent with modest global slowdown



Source: GECS, OECD

Chart 2: Global cost concerns easing



Source: GECS

The outlook for the Chinese economy is especially uncertain at present, with mixed messages from reliable monthly data. The GECS China series points to a weakening picture with significant falls in confidence and orders in the quarter. The fiscal stimulus introduced earlier this year has not stimulated a growth rebound – not surprising, given its modest scale. The short-term outlook is likely to be relatively weak, with data so far this year showing falling imports and anaemic industrial output.

Confidence in the UK mirrored the global pattern, falling back from Q1 but not down to the levels of late last year. The message from the GECS continues to be moderate growth, restrained by stagnant business investment spending. Our view is that UK growth this year will be around 1%, ie weaker than last year and below its trend rate of between 1.5% and 2% a year. Until

there is some clarity on Brexit, UK growth is likely to be rather sluggish but (apart from Q2 this year, which will probably have seen a contraction) stay in positive territory. Consumer spending is likely to be resilient, supported by rising real incomes.

In Western Europe as a whole, confidence held steady in the quarter, although orders slipped to a three-year low. The euro area economy is faltering, with Germany's export-driven growth model sputtering in the wake of slowing external demand, especially from China. Sources of domestic demand growth are limited in the region, but rising real wages could underpin reasonable consumption growth. Of course, Brexit remains an additional source of downside risk.

In other regions, the Middle East suffered a dip in confidence, probably reflecting a fall in the oil price during the quarter.

Despite spikes caused by political tensions in the Middle East, oil prices are below the \$74 per barrel reached earlier in the year. Slowing demand for oil as the global economy loses momentum is likely to be a significant factor in the oil market in coming quarters. Meanwhile, confidence in South Asia held up, although both India and Pakistan are facing slowing economic growth of differing severity.

For emerging markets (EMs), generally the big positive factor is the shift in US monetary policy stance towards easing. Lower US interest rates will reduce capital outflows, which contributed to pressure on EMs last year. The offset to this is that weaker growth in developed economies will reduce demand for EM exports. The split between OECD and non-OECD countries gives a mixed picture in Q2 with the non-OECD performing better in orders but less well in change in confidence.

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Chart 3: Mixed picture on confidence

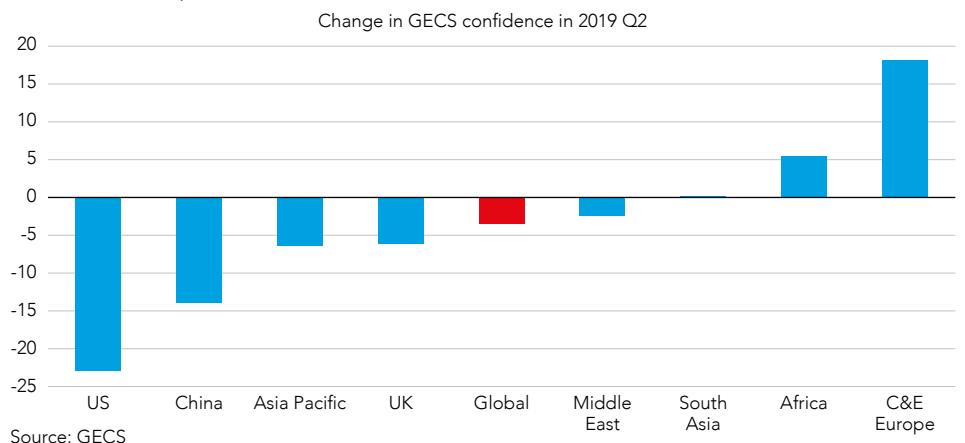
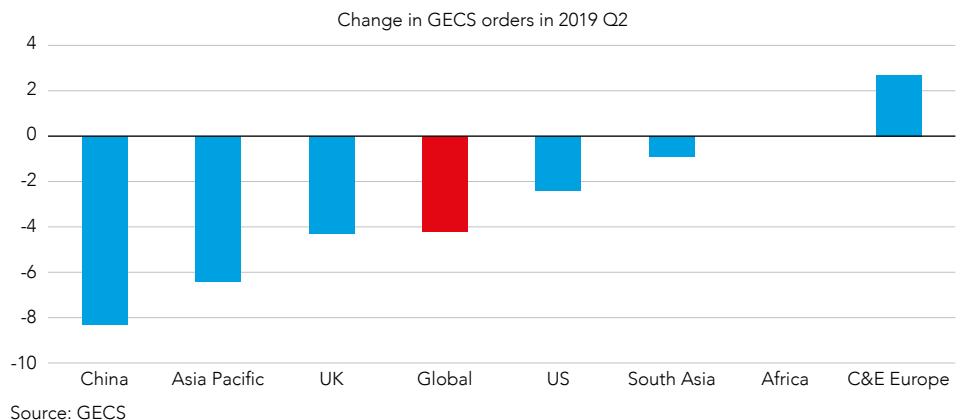


Chart 4: Orders hold up better in US, fall further in China



1. Thematic analysis

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AMERICA – A STRUCTURALLY CHANGING ECONOMY AMID GROWTH

This month, the US economy will complete 10 continuous years of economic growth, the longest such period in over 150 years. This is a remarkable record, even if the pace of growth over this period has not been spectacular. But there are some significant structural changes that will affect the performance of the economy and policy over the longer term. In this article we look at three of these: the jobs market, the oil sector and the public sector finances.

Unemployment and wages growth

A surprising feature of the US economy in recent years has been the performance of the jobs market. Unemployment has fallen to a near-50-year low of 3.7% in June. Over the last 10 years, since the economy emerged from the Great Recession of 2008–9, the US has created over 21 million jobs – an increase of 16.5%. This performance is a testament to the flexibility of the US jobs market. But there also appears to have been a structural shift in the relationship between the unemployment rate and wages growth. The so-called Philips Curve suggests a negative relationship between the two variables, as intuition might suggest – as unemployment falls, the job market tightens, and wages begin to rise, and the pace of acceleration of such rises will increase as unemployment falls further. This relationship appears to have shifted,

with a lower unemployment rate now associated with a more modest rise in wages. This is illustrated in the chart below.

Wage developments have a strong bearing on the conduct of monetary policy since accelerating wages are one of the first signs of incipient inflationary pressures. Reliance on this relationship was illustrated in December 2012 by the then chairman of the Federal Reserve, Janet Yellen. She committed then to not raising interest rates until unemployment fell below 6.5%, suggesting that this was the rate at which inflationary pressures might begin to emerge. At that time, the unemployment rate was 7.9%. It fell below 6.5% in April 2014 and US interest rates were finally increased in December 2015, by which time the unemployment rate had fallen to 5% without generating signs of inflationary pressures.

So there appears to have been a shift in the relationship between unemployment and wages that means wage growth begins to increase at a lower level of unemployment than has been true in the past. As the chart shows, there has been a modest revival in wages growth as the unemployment rate approached and then fell below 4%. But inflation remains well-behaved with no sign of acceleration above 2%. Indeed, the Federal Reserve's preferred measure of inflation – the Personal Consumption Expenditure price index – has been around 1.5% for much of the year so far.

Chart 5: US unemployment and wages – a change in the relationship



Source: US Bureau of Labor Statistics

What explains this shift? One explanation focuses on increased market power of the corporate sector relative to the power of workers. This has resulted in a greater share of total income accruing to capital rather than labor i.e. labor's share of income has declined. This relative power shift is reflected in weaker wages growth even at low levels of unemployment. Rising inequality may also be a factor in overall wages growth: wages for the relatively few at the top of the earnings distribution grow much faster than for the vast majority of workers. Whatever the causes, the consequence is that monetary policy adjustments can take place at much lower rates of unemployment than before.

Oil producer and exporter

The recent shale boom transformed the oil and gas sector and led to a surge in oil production in recent years (see chart below). The scale of this increase meant that by 2018, the US had become the world's biggest oil producer, overtaking Russia and Saudi Arabia. The latest official estimates put US oil production at 12 million barrels per day (mb/d) and Russia and Saudi Arabia each at around 11 million (mb/d).

One effect of this has been an increasing share of oil-related investment in total business investment within the US. This has added volatility to the business investment cycle since oil-related investment is (not surprisingly) positively correlated with the oil price. According to the president of the Federal Reserve Bank of Kansas City (George 2018), between 2006 and 2014, as oil prices trebled to a peak of over \$120 per barrel, total business investment increased by 41%, largely owing to a 125% rise in energy investment (non-energy investment increased by just 21% over the period). But then, between 2014 and 2016, oil prices collapsed back below \$40 per barrel, triggering a 50% drop in energy investment. Non-energy investment increased by 2% over the period but the plunge in energy investment meant that total investment fell by 15%.

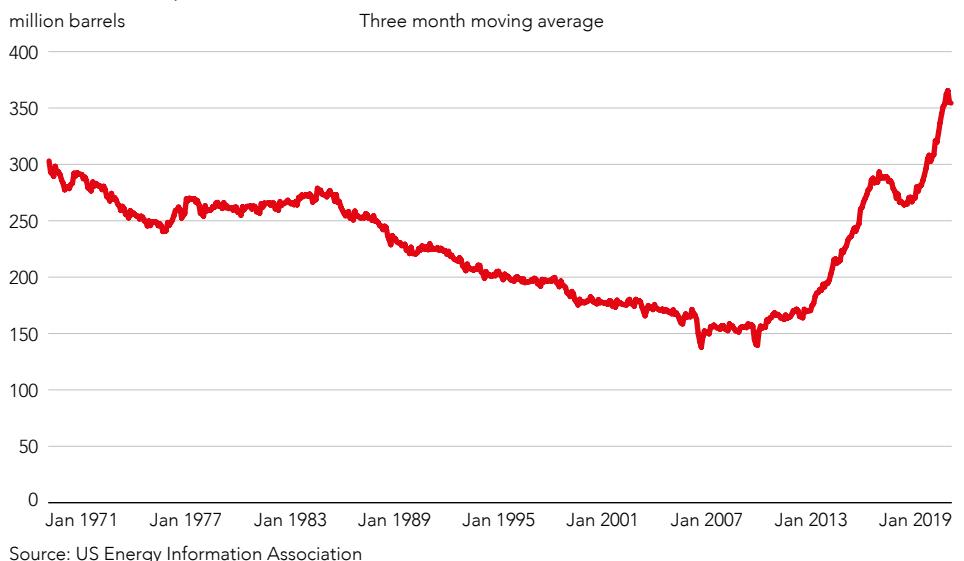
The recent boom in oil production now means that higher oil prices are likely to be a net positive for the US economy. This is in marked contrast to earlier decades, when higher oil prices were an unambiguous negative and were a primary cause of stagflation – the combination of high inflation with sluggish growth. This was caused by the tax effect of higher imported oil prices adding to consumer prices

directly through higher gasoline prices and indirectly as businesses passed higher costs on to consumers. This effect still operates today but its magnitude is reduced in a credible low-inflation environment. Moreover, it is now substantially offset by the increased investment and employment, and the profits that tend to flow to the oil sector when oil prices rise.

There is also a further positive influence on the US economy from higher oil prices (and negative from lower oil prices) and that is the emergence of the US as a net exporter of oil. Already, the power of OPEC (Oil Producing and Exporting Countries) has been diminished as rising US production has resulted in a big fall in US oil imports from the cartel. The International Energy Association (IEA) now forecasts that US exports of crude oil will almost double to nine million barrels a day by 2024, surpassing Russian exports and approaching Saudi levels (IEA 2019). This will represent a further and potentially greater threat to OPEC. But it will also have further implications for the US economy. So from a situation where higher oil prices push up US imports and drag economic growth lower, the effect in the future will increasingly be to boost exports and growth.

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Chart 6: US oil production reaches record levels



Public sector deficits and debt

The third structural change in the US considered here is the fiscal position measured by the public sector deficit and debt. The US reduced its budget deficit along with other developed economies as conditions stabilized after the financial crisis of 2008–9. In early 2018, Congress passed the Tax Cuts and Jobs Act, reducing corporate and personal income tax rates and easing fiscal policy at a time when the economy was already buoyant. Last year, the US economy grew by almost 3%, while the public sector deficit increased by over 2% of GDP to 6.6% of GDP. This so-called pro-cyclical fiscal policy has boosted the deficit and level of public sector debt in the US – such increases are likely to be more permanent than similar ones incurred during an economic downturn. The chart below

illustrates how US public sector net debt is on a rising trend and approaching 90% of GDP at a time when, on average, OECD economies are reducing the level of public sector debt.

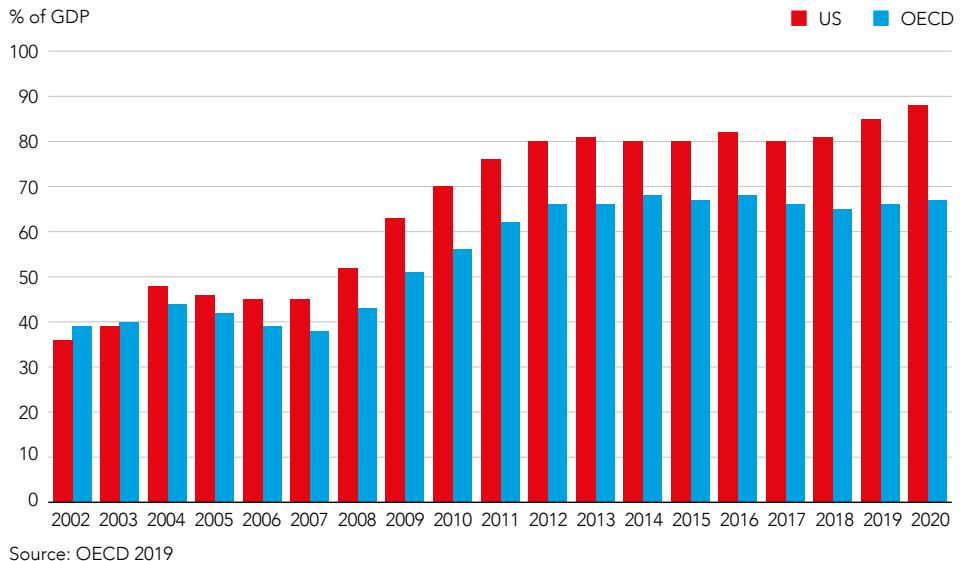
The International Monetary Fund (IMF) has warned about the consequences of high levels of public sector debt: as public debt reaches high levels, it becomes ever harder to stimulate the economy in a downturn (IMF 2018). The IMF singles out the US in this warning, noting that, with current projections, the US will be the only advanced economy where the debt-to-GDP ratio will increase over the next five years. Closer to home, in the US, the Congressional Budget Office (2019) has warned that such high and rising debt would have 'serious negative consequences for the budget and the nation'.

Conclusion

The US economy remains the largest and, in many respects, the most successful in the world. But there are structural changes that represent challenges for policymakers. Perhaps the greatest concern arises from the level of public sector debt, which is on track to reach its highest level since 1946. More positively, the US can operate at lower levels of unemployment without generating upward pressure on inflation. Finally, the resurgence of the oil industry and the emergence of the US as a net exporter of oil is a positive for the economy. But again it is one that requires an adjustment in policy responses and may introduce greater volatility to the economic cycle.

Public sector debt is approaching the level at which fiscal policy may start to lose effectiveness.

Chart 7: US rising public sector debt



Source: OECD 2019

2. Global and regional analysis

The GECS global confidence index fell back in Q2 2019 compared with Q1 but it remains above the record low level reached at the end of 2018.

The GECS global confidence index fell back in Q2 2019 compared with Q1 but it remains above the record low level reached at the end of 2018. The orders balance also declined in Q2. Many of the other components at the global level were little changed between Q1 and Q2. But it should be recalled that confidence and activity indicators are all significantly lower than a year ago.

Looking at confidence levels, 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 North America and Central and South America. The most confident (or rather least pessimistic) part of the global economy was again South Asia, followed by Central and Eastern Europe.

The global inflation picture continues to point to subdued cost pressures. This is perhaps not surprising given the slowdown in global growth over the last year. This is reflected in the GECS where, in each of the last four quarters, concern about rising operating costs has fallen. Cost concerns are now at their lowest since 2017 Q4.

Chart 8: Global confidence and orders dip in Q2

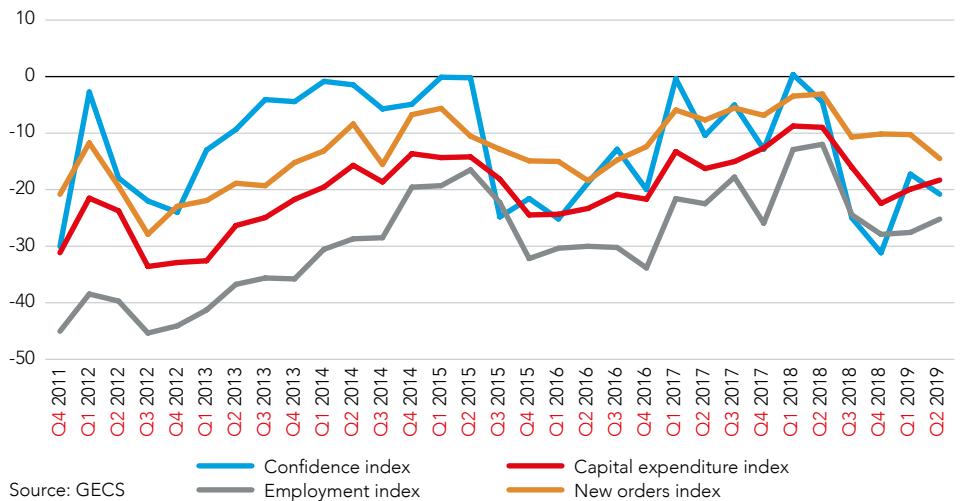
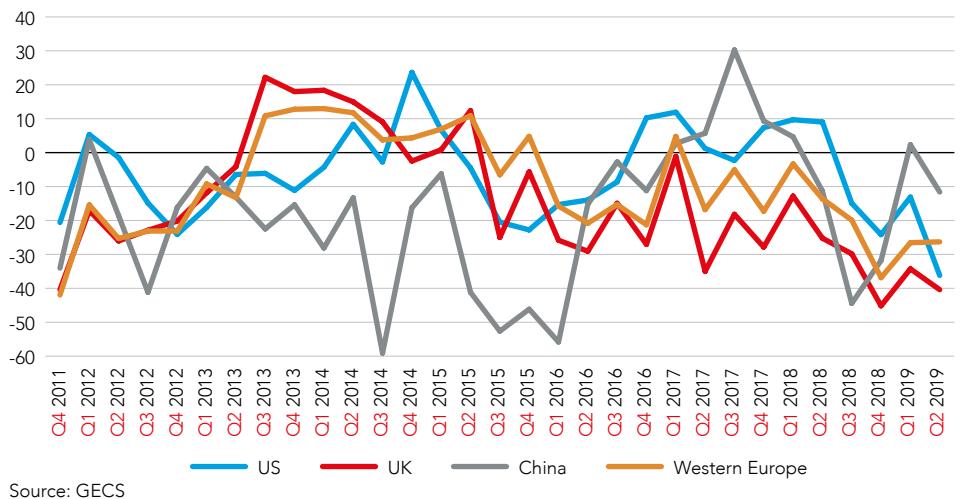


Chart 9: Confidence falls back in major economies



North America

Growth in the US in the first quarter was surprisingly strong, with an annualised rate of 3.1%, faster than in Q4 last year.

Despite this, the outlook is for slower growth this year at 2% to 2.5% compared with last year's 2.9%. The upside surprise on first-quarter growth was driven by a strong trade performance and a build-up of inventories. Already, there are signs of a slowdown, with the key manufacturing Purchasing Managers' Index (PMI) for June falling to its lowest level since October 2016. The corresponding non-manufacturing index is at a near-two year low, although both indices are still pointing to overall expansion in activity. For the second quarter, the Federal Reserve Bank of Atlanta's 'Nowcast' estimates GDP growth at just 1.4% annualised.

The US GECS findings in Q2 showed a very sharp drop in confidence, to a record low. A fall in confidence, if not on this scale, was to be expected. This is because the quarter witnessed a resurgence of trade tensions, primarily between the US and China, which had abated in the first quarter. The direct effect of trade measures on the US economy has so far been relatively limited, restricted to certain specific sectors such as agriculture. But a significant escalation in the level of tariffs, to 25% on all Chinese imports, would have a more material downward influence on the economic outlook.

Orders fell slightly in the second quarter and are now consistent with US growth slowing to an annual rate of around 1.5% in the second half of the year. The fading of the fiscal ease of last year is one factor reducing momentum. Meanwhile, there has been a fairly rapid shift in the likely future course of US interest rates. Financial markets are now almost fully discounting a 0.25-point interest rate cut at the next monetary policy meeting at the end of July with a high probability of a further 0.25-point cut later in the year. The Federal Reserve in recent policy statements has made it clear that any easing of policy in the current circumstances would represent more of an insurance policy than a reaction to a downturn that is already under way.

The US economy has now enjoyed ten years of continuous growth since recovery began after the great recession of 2008–9. Some analysts have argued that another recession is imminent, largely because it has been so long since the last one. The negative yield curve (short-term interest rates above long-term interest rates) persists and points to a risk of recession. (See discussion on this in the GECS 2019 Q1 Report.). But real economic data is not consistent with recession, especially the buoyancy of the jobs market reflected in a multi-decade low in the unemployment rate. Nor is there any evidence of financial distress, with respondents to the GECS reporting continued easy access to finance. Our view is that a US recession is highly unlikely, either this year or in 2020.

Such a policy move is possible because US inflation persists below the 2% target, creating room for policy flexibility. The GECS measure of concern about costs increased slightly in Q2 but remains well below its level of a year ago when a re-emergence of inflationary pressures appeared imminent.

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Chart 10: GECS US orders point to slowdown

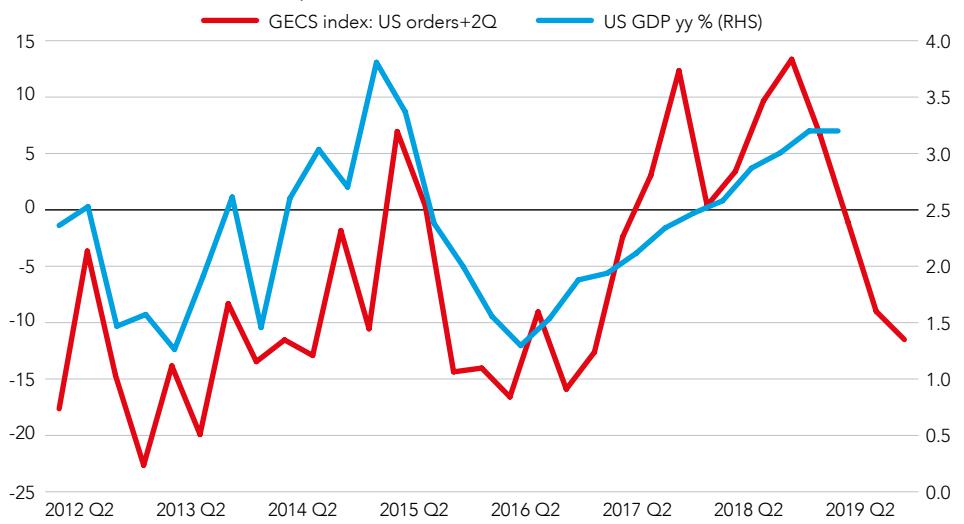
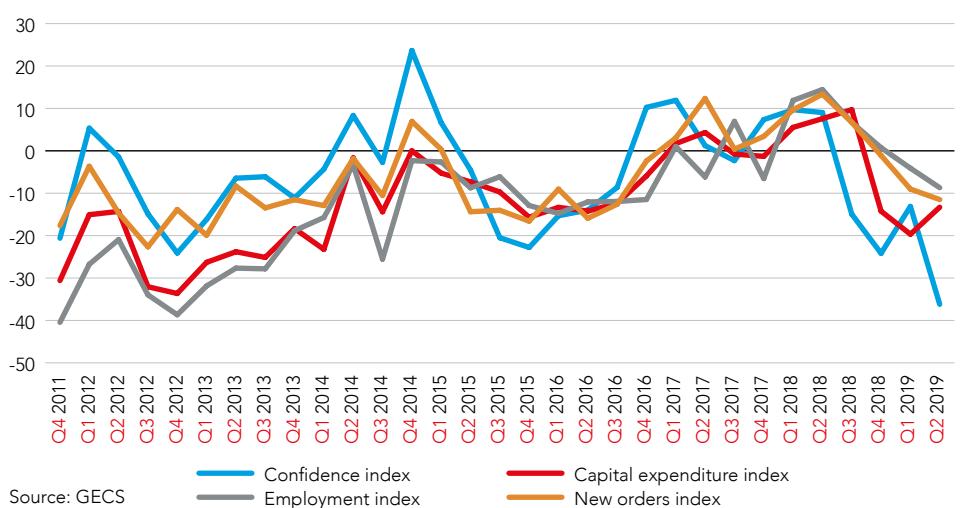


Chart 11: US confidence slumps, orders hold up



Asia Pacific

Confidence in the Asia Pacific region fell in Q2, to the lowest level in a year.

Increased perceived risk around the US–China trade dispute was almost certainly a factor in this. The effects of a US–China trade war would be felt across the region and would be negative, overall. Regional supply chains feeding into Chinese exports will hurt many economies in the region and a weaker Chinese economy generally results in reduced demand for imports from other countries within the Asia Pacific region. A potential offset to this could be the relocation of industries to other Asia Pacific countries from China in order to avoid high US tariffs. But the near-term effects will undoubtedly be negative.

Confidence in the Asia Pacific region fell in Q2, to the lowest level in a year. Increased perceived risk around the US–China trade dispute was almost certainly a factor in this.

China in focus



Data earlier this year had suggested that Chinese growth had stabilized with an official annual growth rate of 6.4% in the year to the first quarter, the same rate as in the fourth quarter of 2018. Growth was within the 6% to 6.5% official target range for 2019. But the most recent data on industrial output and fixed asset investment have pointed to a loss of momentum into the second quarter. Imports fell by 8.5% in the 12 months to May – a reflection of the weakness of Chinese domestic demand.

The prospect of a further stimulus – on top of the one earlier this year that was worth \$300bn – is increasing. Added impetus to this may come from the upcoming 70th anniversary of the founding of the People's Republic of China on 1 October. A healthy – or at least a stable – economy at this time would be highly desirable.

Reflecting a softer outlook, components in the GECS China indicator deteriorated in the Q2 survey, including orders and capital expenditure. A notable exception is the government expenditure index, which rose to a four-year high in Q2. One explanation for this may be expectations of an imminent economic stimulus.

Chart 12: Asia Pacific region affected by slowing China

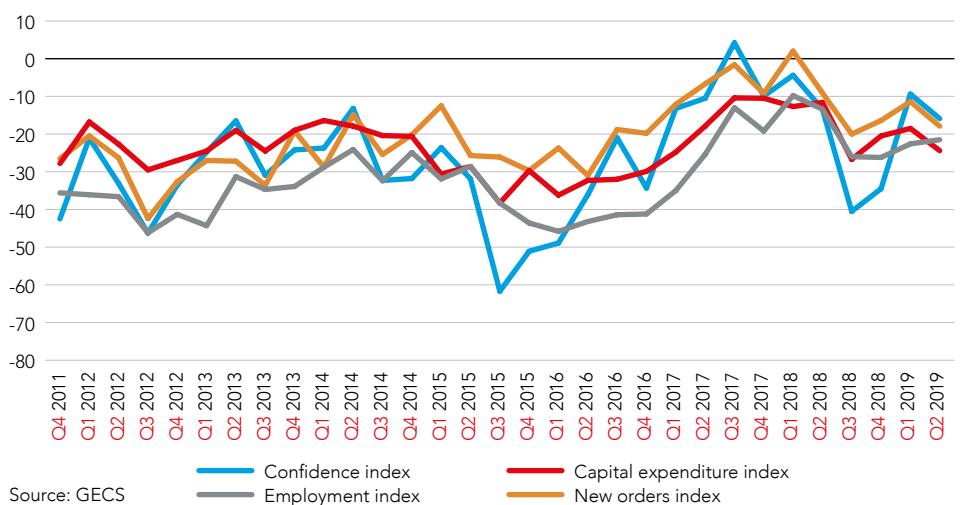
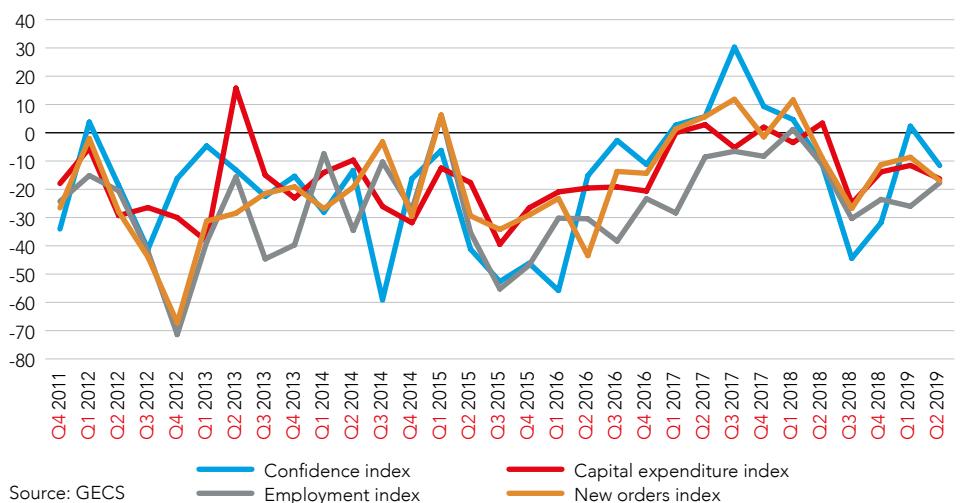


Chart 13: China still struggling



Western Europe

The eurozone economy continues to struggle with weak growth and below-target inflation.

A big factor in this slowdown is Germany, whose export-driven growth model is under pressure from weaker global trade and especially weak demand from China and global issues that are restraining the German car industry. As a result of continued poor economic performance, Mario Draghi, President of the ECB, has prepared the ground for additional easing measures in coming months, including the possibility of renewed asset purchases, which only ended at the end of last year. (The next European Central Bank (ECB) monetary policy meeting is on 25 July.) Downside risks arise from Brexit uncertainty and from rising global trade tensions. A possible positive source of growth in the euro area is through lower inflation and rising nominal wages boosting real incomes and consumption.

The UK GECS readings suggest that – until Brexit uncertainty is resolved – the UK economy will grow at a sluggish rate, but not fall into recession.

UK in focus



The seven-month extension to 31 October of the Article 50 deadline for leaving the EU has increased the impact of Brexit uncertainty on the economy. This uncertainty is having a negative influence on business confidence and the UK GECS confidence measure fell back in Q2, as did the orders balance. Both confidence and orders are consistent with below-trend growth into the second half of the year.

In Q1, the economy expanded by 0.5%, boosted by stock building ahead of an anticipated March date for leaving the EU. Many companies also brought forward summer shutdowns to April to allow time to adjust to a post-EU environment. As stocks are run down and early shutdowns take effect, there will be a significant drag on GDP growth, which is likely to have been negative in the second quarter of the year. Modest growth may return through the second half of the year, subject to Brexit developments. It should be noted that the UK GECS does not point to corporate distress or imminent recession – the balance of respondents concerned about suppliers or customers going out of business remains at low levels.

Chart 14: Western European economy losing momentum

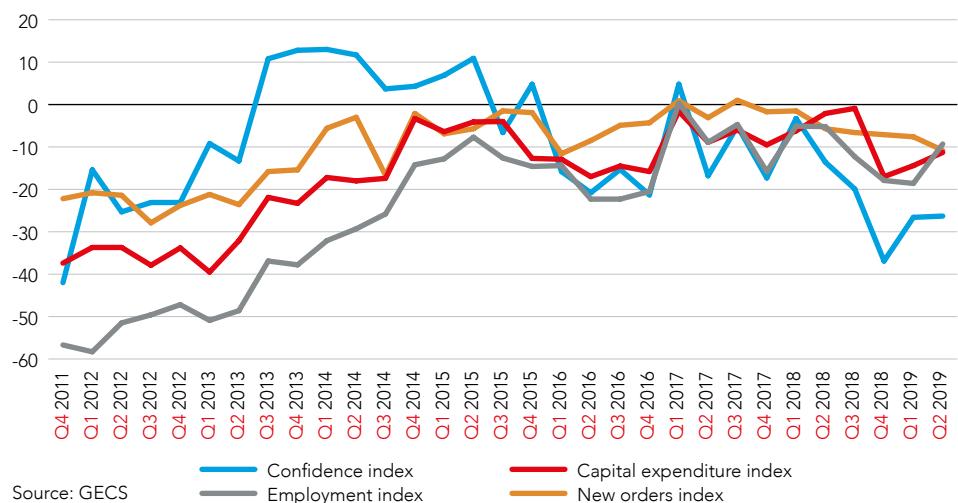
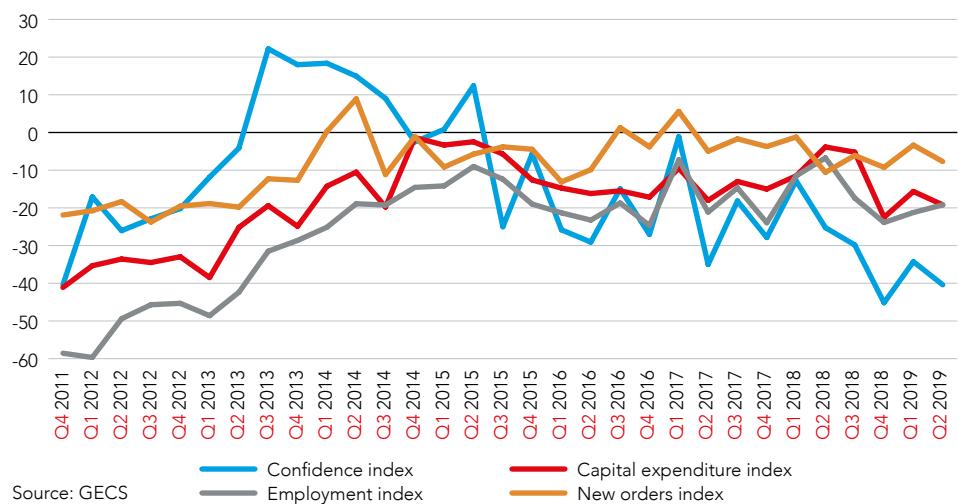


Chart 15: The UK economy hampered by Brexit uncertainty



Middle East

The GECS confidence index in the region fell slightly in Q2. But it remains well above the levels recorded through the second half of 2018 when oil prices fell sharply and US interest rates were on an upward trajectory.

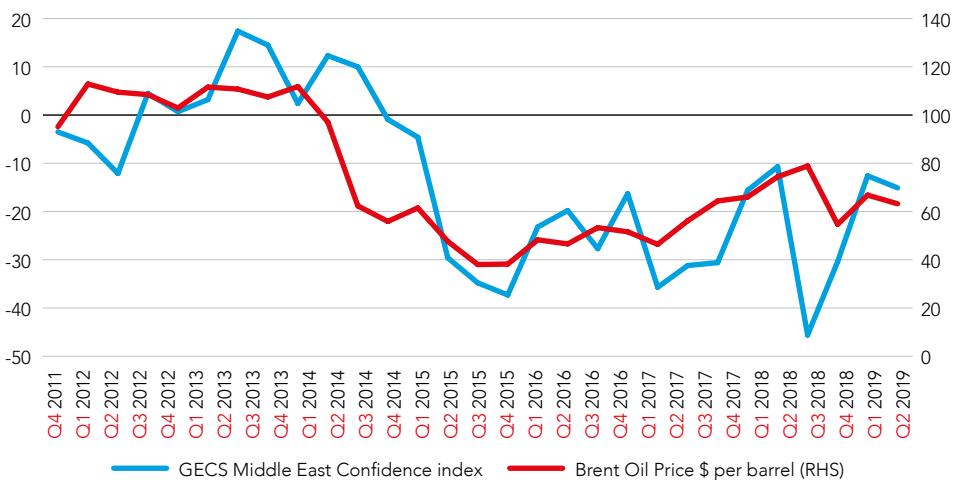
A positive development – at least for those with exchange rates fixed to the US dollar – is the prospect of lower US interest rates, a move that would allow such countries to ease monetary policy too.

But the dominant influence on confidence in the region is fluctuations in oil prices. (See chart 14.) Recent oil prices have been volatile with upward spikes as tensions in the Gulf escalated markedly. But a potentially more dominant influence on oil prices is likely to be reduced demand as a result of a slowing global economy. In June, the IEA revised its forecast for world oil demand this year down to 1.2m barrels per day (mb/d) from 1.4 mb/d (IEA 2019).

In Q2, most of the components of the regional index are slightly below their long-run average. This is consistent with growth in the region of around 1.5% to 2% this year. There are mixed results from government spending measures as some economies make greater efforts to boost the non-oil sectors of their economies, e.g. United Arab Emirates (UAE), Qatar and Saudi Arabia.

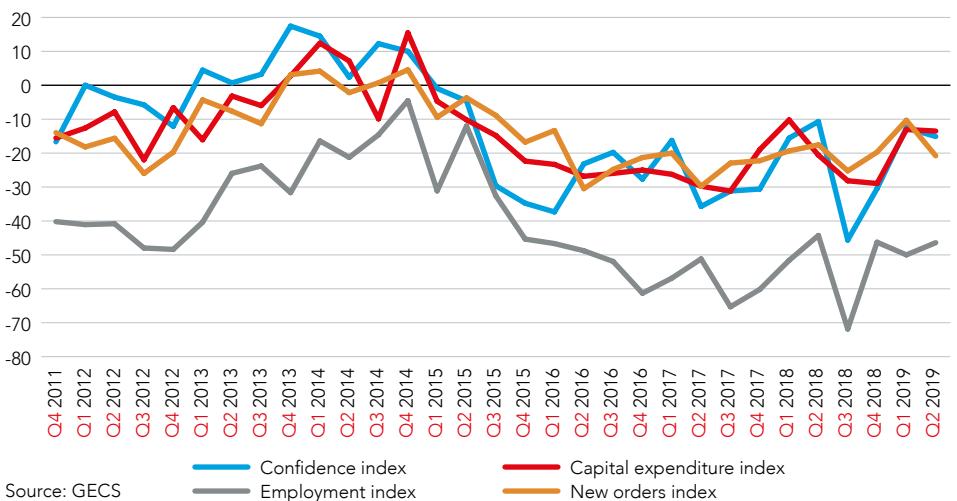
Despite recent spikes in oil prices caused by events in the Gulf, a more enduring influence on prices is likely to be weaker demand for oil as the global economy slows.

Chart 16: Middle East confidence tracks oil prices



Source: GECS, US Energy Information Administration

Chart 17: Middle East relatively stable



Source: GECS

South Asia

The South Asia region in the GECS is one of the most optimistic in the latest survey, but India and Pakistan are the dominant countries in the region and both are facing economic challenges.

Revised data show the Indian economy losing momentum over the last year, led by manufacturing and agriculture. By the first quarter of this year, annual growth had slowed to a four-year low of 5.8%. So far this year the Reserve Bank of India (RBI) has cut interest rates by 25bps on three occasions, down to 5.5%, in an attempt to revive growth through the credit channel. For fiscal year 2019/20, GDP growth now

looks likely to be slightly below 7%. Indian confidence in GECS bounced in Q2 after falling in Q1 – bucking the global trend. The removal of political uncertainty after the re-election of Mr Modi in the general election may have been a factor in this.

Meanwhile, Pakistan's economy is slowing as it grapples with twin current account and fiscal deficits. In May, the State Bank of Pakistan surprised markets by raising interest rates by 150bps to 12.25%, as it has grown increasingly concerned about inflation, currently running at around 7% a year. (A year ago interest rates were 6.5%). Increased monetary financing of the budget deficit and a depreciating currency have added to inflation worries.

This monetary tightening, along with a slowing global economy, will result in a significant slowdown in economic growth. Tax increases required as part of the recent IMF bail-out will also dampen private sector activity. So far this year, the World Bank has cut its 2020 GDP forecast by 1.5 percentage points to 2.7%, below the 3.4% it now expects for this year (World Bank 2019). Perhaps not surprisingly, there was a big fall in confidence in Q2 with the employment index falling sharply.

Overall in South Asia, confidence improved in Q2, but remains below its long run average. More positively, new orders are in line with average levels.

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Chart 18: South Asia – a mixed bag

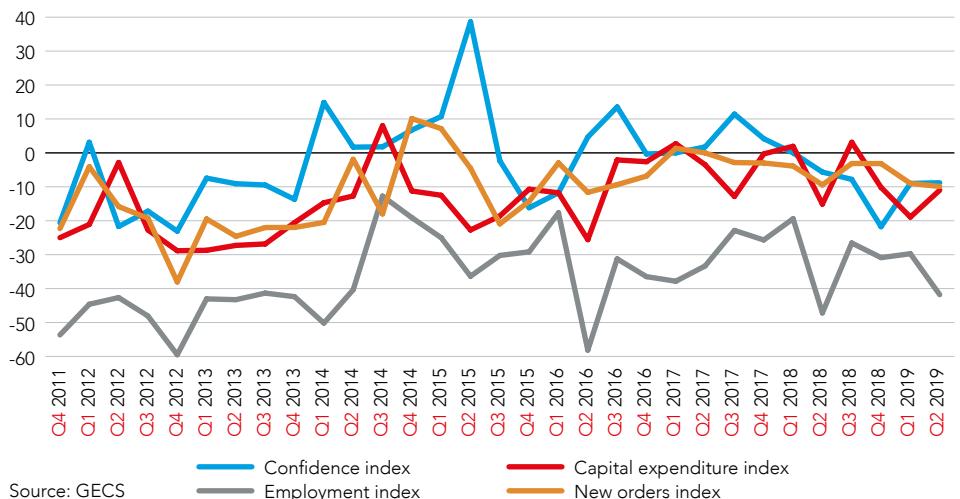
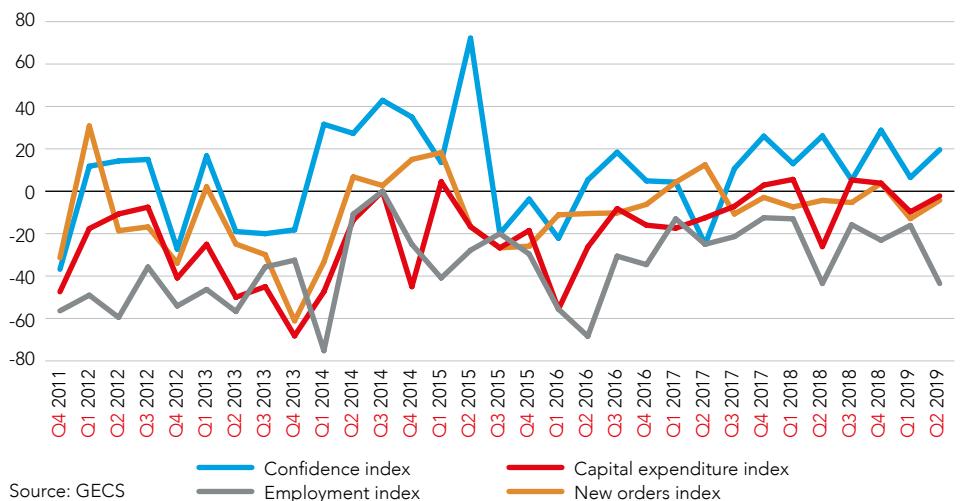


Chart 19: Indian confidence improves in Q2



Africa

In Q2 2019, the GECS confidence index for Africa improved, one of the few regions to see a rise in the quarter.

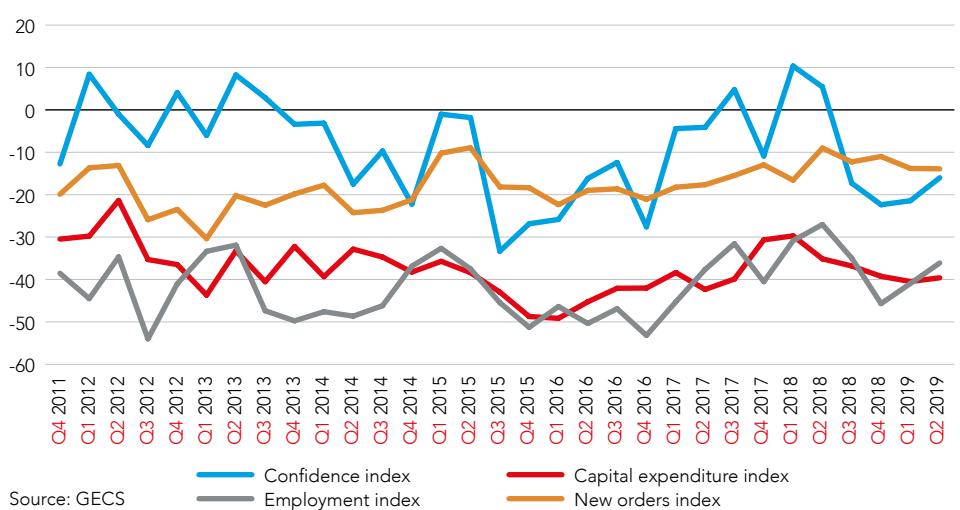
The prospect of lower US interest rates is a positive factor since it eases the pressure for capital outflows from the continent. Lower US interest rates also allow many

economies to ease monetary policy. Despite relative buoyancy in oil prices, many producers are struggling with supply bottlenecks and policy uncertainty. Investment in some of the large African economies should pick up this year and the GECS measure of investment opportunities is on a strong upward trend with a big jump in Q1

2019. The global economic slowdown is a downside risk for Africa and China and the euro area – the major destinations for African exports – look especially vulnerable. Growth in the region this year is likely to be around 3.5%, an improvement on recent years but still below the rate that will significantly lift per capita incomes.

Investment in some of the large African economies should pick up this year and the GECS measure of investment opportunities is on a strong upward trend with a big jump in Q1 2019.

Chart 20: Africa still in the doldrums



Global growth is slowing as 2019 progresses but that slowdown is not yet precipitous or indicative of imminent global recession.

Global growth is slowing as 2019 progresses but that slowdown is not yet precipitous or indicative of imminent global recession. The major downside risk continues to lie in trade tensions and their potential to have much wider effects beyond the US and China. Perhaps the biggest surprise in the global economy in recent months has been the shift in the stance of the US Federal Reserve: at the start of the year market expectations were for further interest rate increases, the strong expectation now is that US interest rates will be cut by at least 0.25 point in coming months.

China remains the main area of concern in the global economy, despite the official GDP growth estimate of 6.4% for the first quarter. A modest fiscal stimulus earlier this year has not given the economy much of a boost. Expectations of more growth-stimulating measures are rising, especially with the approach in October of the 70th anniversary of the founding of the People's Republic. But it is unclear whether such measures will involve credit easing, thereby risking exacerbating China's excessive debt problem. The current slowdown in China is mainly a result of monetary policy measures taken in recent years in order to restrict credit growth as debt concerns mounted. It is only fairly recently – over the last 12 to

18 months – that trade tensions have exacerbated a slowing trend in Chinese economic growth.

Chinese import figures are especially weak at present, reflecting soft domestic demand: the counterpart to this, of course, is weak exports to China and the euro area, and in particular Germany, are especially vulnerable in this respect. The German economy is export dependent and consequently growth there is faltering. The German economy's difficulties are compounded by its reliance on the auto industry, which is facing both structural change and weak demand. German GDP is likely to grow by less than 1% this year and with Italy barely registering any growth at all, the euro area as a whole is on course for GDP growth this year of at most 1.25%. This faltering euro area performance, alongside continued subdued inflation, has prompted the ECB to change its policy stance. As recently as last December, the ECB effectively tightened policy by ending its asset purchase plan, which may now be restarted in the coming months, and further easing measures taken in an attempt to revive growth.

Meanwhile, the UK outlook continues to be dominated by Brexit uncertainty as the new deadline for leaving the EU (31 October) approaches. The nature of the



UK's EU exit, should it occur, will dominate the economic outlook in the near term. Investment in particular is being held back by the continuing uncertainty, and the GECS confirms this. But consumer spending is holding up as nominal wages rise faster than inflation. Recession is not likely while consumer spending is rising.

The biggest about-face among central banks has come from the US Federal Reserve, which now looks almost certain to cut interest rates at its next meeting at the end of July. Despite the fall in confidence in the US GECS index, the evidence so far of a significant slowdown in the real economy is mixed. Easing of policy now would be more of an insurance policy than a response to perceived economic weakness. The GECS orders index is now consistent with GDP growth of around 1.5% annualised in the second half of the year.

The trend since the great recession of 2008–9 has been for world trade to grow more slowly than global GDP – a reversal of the pre-financial crisis situation.

For EMs the outlook is again rather conflicted: the good news is the prospect of lower US interest rates, which will reduce capital outflows from EMs and in some cases allow easier monetary policy too. But the outlook is clouded by slower growth in larger economies, the destination for a significant proportion of EM exports. Weakness in the euro area and China are particular concerns in this respect.

A potentially greater threat to EMs would arise from an escalation of trade tensions between the US and China that threatened a sharper global slowdown than is currently expected. A consequence of this would in all probability be a 'flight to quality', where risky assets are sold off in favour of 'safe havens' such as US Treasury bonds, gold and the Japanese yen. The consequent capital outflows from EMs would impose significant costs on many such economies. As the chart

below shows, global trade growth has slowed sharply over the last year or so, more dramatically than global activity has moderated (see chart). The trend since the great recession of 2008–9 has been for world trade to grow more slowly than global GDP – a reversal of the pre-financial crisis situation.

The outlook for global growth this year remains a slowdown to between 3% and 3.5% from 3.8% last year. The downside risks come mainly from trade issues and a more severe China slowdown than currently anticipated, with subsidiary concerns surrounding the possibility of a no-deal Brexit and economic stagnation in the euro area. On balance, these risks are more elevated now than at the start of the year. The good news is that persistent sub-target inflation, notably in the US and euro area, gives central banks the policy bandwidth to ease monetary policy.

Chart 21: Global trade growth slowing sharply



Source: World Trade Organization (2019), Federal Reserve Bank of St Louis

Table 1: World Bank GDP Forecasts (June 2019)

% CHANGE	2018a	2019	2020
USA	2.9	2.5	1.7
Euro area	1.8	1.2	1.4
UK*	1.4	1.2	1.4
EMs and developing economies	4.3	4.0	4.6
China	6.6	6.2	6.1
India	7.2	7.5	7.5
Pakistan	5.8	3.4	2.7
Middle East and North Africa	1.4	1.3	3.2

Source: World Bank 2019

*UK forecast is from IMF 2019

Appendix I:

Economies covered by Q2 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	Mainland China	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		

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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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