The Association of Accountants and Financial Professionals in Business

Think Ahead

Global economic conditions survey report: Q4, 2014

ABOUT ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.
We support our 170,000 members and 436,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of 91 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

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ABOUT IMA®

IMA®, the association of accountants and financial professionals in business, is one of the largest and most respected associations focused exclusively on advancing the management accounting profession. Globally, IMA supports the profession through research, the CMA® (Certified Management Accountant) program, continuing education, networking and advocacy of the highest ethical business practices. IMA has a global network of more than 70,000 members in 140 countries and 300 professional and student chapters. Headquartered in Montvale, N.J., USA, IMA provides localized services through its four global regions: The Americas, Asia Pacific, Europe, and Middle East/Africa.

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Global economic conditions survey report: Q4, 2014

The Global Economic Conditions Survey (GECS), carried out jointly by ACCA and IMA, is the largest regular economic survey of accountants in the world, in both the number of respondents and the range of economic variables it monitors.

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

1. Introduction

2015 has started with mild optimism about the prospects for the world economy the year.

1.1 THE GLOBAL ECONOMY

2015 has started with mild optimism about the prospects for the world economy over the year. The ACCA–IMA Global Economic Conditions Survey (GECS) suggests that business confidence was already picking up at the end of Q4 2014 and was marginally higher than the previous quarter, even though the end of Q4 itself was relatively weak compared to previous quarters. Indeed, this aligns with IMF forecasts that the global economy will grow by 3.5% in 2015, an increase from 3.3% in 2013 and 2014. Lower oil prices will feed favourably into the upturn and regions such as North America and south Asia will lead the way in the recovery. Nonetheless, continuing weak conditions in Europe, the prospect of slower growth in Asia Pacific, growing political instability in Russia and the after-effect of the Ebola crisis in Africa are causing the economic recovery to become significantly unbalanced. The GECS regional responses corroborate this picture: the pick-up in sentiment is due largely to substantially more positive responses in North America and south Asia than compared to other regions.

Stuttering global economic growth in Q4 did not appear to have a detrimental effect on the responses of the survey sample to questions on economic climate, investment, staffing or business growth and opportunities, suggesting that Q1 2015 may not be as disappointing as some analysts are predicting.

1.2 DECLINING NEGATIVE SENTIMENT

Q4 saw a reduction in the number of members reporting problems with declining orders: 25% of respondents experienced issues compared with 24% in Q3; 8% reported that suppliers were going out of business in this quarter compared with 12% in Q3; and 20% reported that customers were going out of business compared with 23% in Q3. There was, however, a slight increase in respondents who were experiencing problems securing payments, up from 29% in Q3 to 31% in Q4.

1.3 INCREASING GLOBAL POSITIVITY

Globally, in Q4, some 32% of respondents reported increased confidence in the business climate, compared with 28% in Q3. There was a drop in those reporting no change from 39% in Q3 to 31% in Q4. Even so, there was a slight increase in those reporting less business confidence, rising from 33% in Q3 to 37% in Q4.

1.4 GROWING OPPORTUNITIES FOR PROFIT

In Q4, 20% of respondents reported profitable opportunities, compared with 17% in Q3. There was also a general upturn in the number of new jobs being created. Whereas in Q3, 14% of respondents reported that their companies had created new jobs, in Q4 this increased to 23%

1.5 SCALING UP

The percentage of respondents reporting increases in economic variables such as employment, investment, capital expenditure and investment in staffing expenditure suggest that businesses are scaling up for 2015 thus implying that further improvements are expected in their national economies.

1.6 CONTINUING GLOBAL CHALLENGES

Using a moving average across all quarters since Q4 2012 reduces the variability of the survey responses and shows that there is declining confidence in the Middle East, Asia Pacific, Central Eastern Europe, Western Europe, Africa and the Caribbean. Any statement about a pending recovery has to be balanced against the fact that businesses are clearly not confident about its strength. The general improvement in sentiment as seen in the survey, therefore, may well be driven by confidence among US respondents.

It is, therefore, far too soon to herald a full recovery, not least because the number of regions still grappling with economic and political concerns could cause confidence to decline as 2015 progresses. For example, the Eurozone, China and some parts of Latin America, especially Brazil, show weaker confidence than the US and India. The results from Q4 2014 suggest that there are grounds for optimism, but whether this is a temporary upswing or the genuine beginning of recovery has yet to be seen – there is still some way to go until these effects are truly reflected in the real economy.

2. Global business confidence

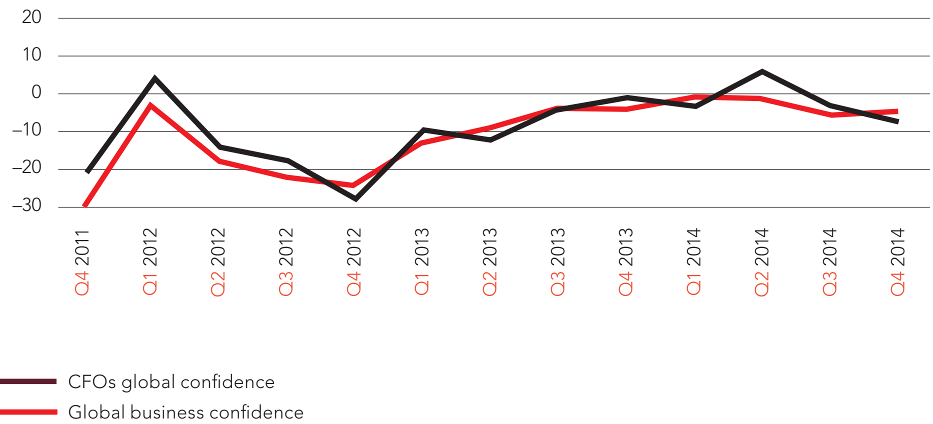
The global business confidence trend shows a general deterioration in confidence through 2014, despite a slight improvement in the final quarter of the year at a global level.

2.1 THE GLOBAL TREND

The global business confidence trend shows a slight deterioration in confidence through the year, but there was a slight improvement in the final quarter at a global level. In particular, 32% of respondents reported 'more confidence' in the business climate compared with 28% in Q3 2014. There was a drop in those reporting 'no change' from 39% in Q3 to 31% in Q4, and a slight increase in those experiencing 'loss of business confidence', up from 33% in Q3 to 37% in Q4. This suggests a greater polarisation of views in the last quarter (Q4) and it could be that members in regions such as North America are more optimistic about the recovery than members in the Asia Pacific region or, understandably, than those in central and eastern Europe.

Therefore, despite some improvements, the picture is not wholly rosy: there is evidence of underlying weakness shown in the responses of CFOs who have become substantially less confident. There were two consecutive quarters of negative growth, suggesting that while overall sentiment may have improved, it is not possible to claim a recovery as yet. There were disparities between the size of organisations too, for instance, larger corporations (38% of respondents) tended to be more pessimistic than smaller and medium-sized companies (36% of respondents). Indeed, CFOs are more frequently found within larger companies and so this may have skewed the overall global picture.

Figure 1: Global business confidence



2.2 BUSINESS ORDERS AND CASH FLOW

Even so, respondents in Q4 reported feeling more positive about their orders and cash flow than they had been in Q3: fewer respondents reported decreased revenue, fewer had had problems securing prompt payment, fewer had concerns about either suppliers or customers going out of business. All these considerations have influenced the general increase in business confidence; the somewhat bleaker picture derived from CFOs is out of line with the rest of the survey responses.

For example, in Q4:

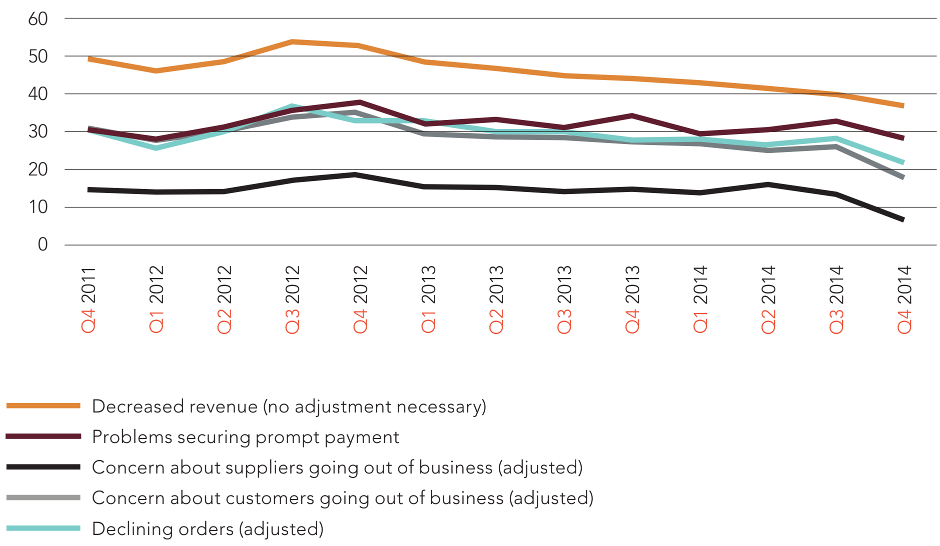
- 24% of respondents were experiencing issues with declining orders, compared with 25% in Q3
- 8% of respondents reported that suppliers were going out of business, compared with 12% in Q3
- 20% reported that customers were going out of business, compared with 23% in Q3.

There was a very small increase in respondents who were experiencing problems securing payments, up from 29% in Q3 to 31% in Q4. In terms of the regional differences in these responses, 41% of respondents in Africa claimed that securing payments was a problem while 53% of respondents in the Asia Pacific region and 49% of respondents in the Africa region reported that increased costs were an issue in Q4, 2014.

24%

experienced issues with declining orders compared to 25% in Q3.

Figure 2: Business orders and cash flows (global)



For the first time the GECS survey asked respondents about their perception of opportunities in the current climate with the aim of distinguishing between 'survival' and 'value-adding' opportunities.

2.3 BUSINESS OPPORTUNITIES

For the first time, the Q4 2014 GECS survey asked respondents about their perception of opportunities in the current climate, with the aim of distinguishing between 'survival' and 'value-adding' opportunities. As these are new additions into the survey, it would be misleading to infer a trend from them, therefore for this quarter's report, it is more appropriate to comment generally on the level of business opportunity now available for members.

Globally, 39% of respondents believed there to be 'more opportunities' available in the fourth quarter of 2014 than in the previous quarter. Focusing specifically on one type of opportunity – 'investment opportunity' – regionally, the most notable positive changes were again North America, where respondents reported the largest upswing in investment opportunities; but there was also improvement in the Asia Pacific and south Asia regions. In other regions, such as western Europe and the Middle East, respondents also saw modest gains. Again, as expected, those in the central eastern Europe region, Africa and the Caribbean exhibited the largest negative swing.

Respondents in Hong Kong, Singapore, Pakistan, the US and Canada, experienced the largest gains in investment opportunities while respondents in Russia and Australia, to a lesser extent, reported fewer investment opportunities overall.

2.4 BUSINESS DYNAMISM

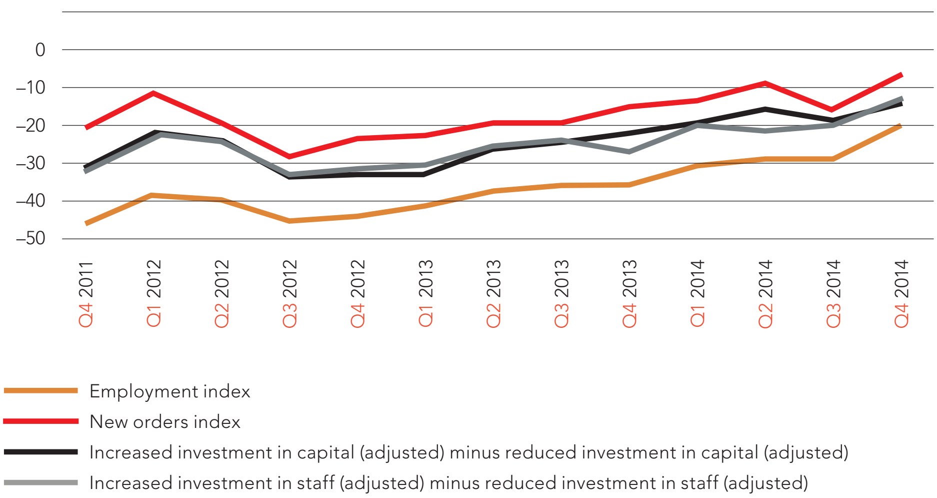
This section looks at the changes in business investment, new orders and investment as measured by the GECS. These factors are some of the key drivers of growth.

The more dynamic economic fundamentals such as employment – new hires, new orders, and increased investment in both capital and staff – showed positive signs of increasing in the fourth quarter of 2014. There was an increase in those reporting profitable opportunities: 20% of respondents reported finding opportunities that were more profitable in Q4 compared with 17% in Q3. There was also a general upturn in the number of respondents who thought that new jobs were being created, up from 14% of respondents in Q3 to 23% of respondents in Q4.

39%

believed there were more business opportunities available in Q4.

Figure 3: Business dynamism (global)



3. Winners and losers

Only North America and South Asia saw an overall improvement in business confidence.

3.1 THE OVERALL PICTURE

Overall, respondents have reported an increase in global business confidence, which has been brought about by improvements in the US as well as improvements in rates of employment and investment. At a more granular level, however, the story is more complex.

In spite of the largely positive overall picture, only respondents in North America and south Asia saw a general improvement in business confidence: using a moving average across all quarters since Q4 2012 flattens the fluctuations in the survey responses and shows there is declining confidence in the Middle East, Asia Pacific, central and eastern Europe, western Europe, Africa and the Caribbean.

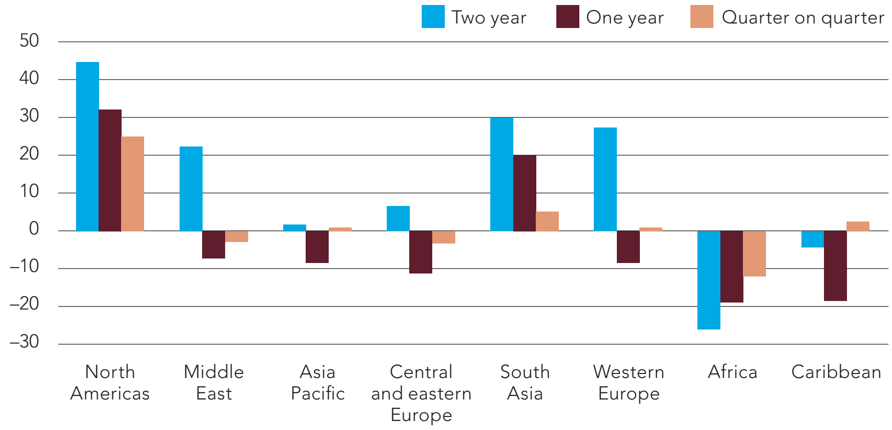
In terms of the general economic climate, the slowing regional economies in Europe and south Asia, Africa and the Caribbean are affecting responses to the survey. Political tension between Russia and the West is now established and the adverse changes in business confidence in the central and eastern European region may be attributed to this.

At the regional level, the greatest confidence gains were recorded in North America (46% of respondents believed they were more confident in Q4 than in Q3) and south Asia (38% did so). From the regional four-month moving average graph in Figure 4, an upward trend for south Asia and North America is evident. Unsurprisingly, sentiments are falling in regions such as eastern Europe (where 54% of respondents reported feeling less confident in Q4 than in the previous quarter), Asia Pacific (52%) and western Europe (36%).

Business confidence in Africa also deteriorated since the previous quarter as a result of continuing geo-political tensions arising from civil war and the ISIS threat (with 51% of respondents reported feeling less confident in Q4 than in the previous quarter). The effect that these geo-political tensions have had on business confidence has been compounded by the continuing effects of the Ebola virus in the region.

The Caribbean also makes for an interesting case when looking at business confidence. Business sentiment has fallen in the Caribbean since Q3 (47% of respondents reported declining confidence in Q4) and much of this is as a result of its over-reliance on agricultural commodities that have recently suffered decreasing market prices.

Figure 4: Regional business confidence



Closer examination of the regions shows confidence gains in the US, UAE and the UK. Conversely, Russia – unsurprisingly given the political climate – has seen a worrying trend of decreasing confidence. Similar trends are visible in (mainland) China, Hong Kong, Singapore, Malaysia and Australia.

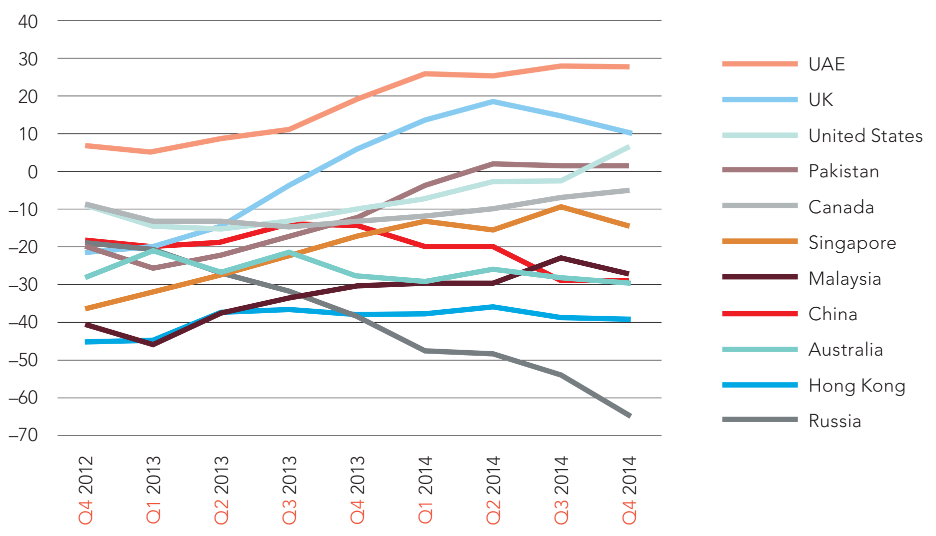
In several countries, respondents' reports on business sentiment deteriorated slightly since Q3. For example, UK sentiment suffered as a result of concerns about deflation. In Singapore, a reduction in the growth in numbers of housing loans, tighter financial regulation and restrictions on financial activities have all contributed to the fall in business confidence in the last quarter. Further, Australian reliance on commodities and Chinese investment has meant that business confidence among respondents remains below expectations.

The business dynamics responses refer to the employment and investment drivers of business confidence. The questions look at how many new hires have taken place in the last three months, how much has been invested, in the form of capital and staff, and the new orders coming through.

46%

46% of respondents in North America felt they were better off in Q4.

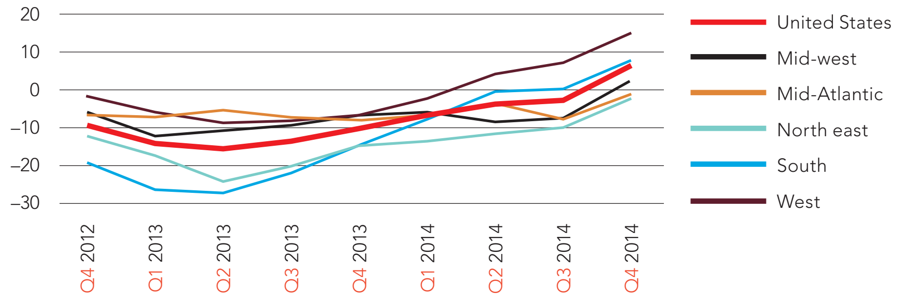
Figure 5: Four-quarter moving average: regional business confidence



IN FOCUS: US BUSINESS CONFIDENCE

Economic recovery appears uneven across the US as Figure 6 illustrates. The western and southern states seem to be performing above the US average while states in the north east and mid-Atlantic are lagging behind the rest of the country. It could be that the Shale revolution, centred mostly in states such as California and Texas, may have contributed to the more dynamic outlook in these areas. Moreover, western states tend to enjoy more favourable economic conditions such as steady immigration, and in states such as Nevada, businesses do not pay tax at the state level therefore contributing more favourably to the growing business confidence in certain areas.

Figure 6: US business confidence



3.2 BUSINESS DYNAMISM: EMPLOYMENT

Changes in reported employment vary among regions. The respondents who reported the greatest gains since the previous quarter are North America, the Caribbean and the Middle East, with those in other regions, such as south Asia and central and eastern Europe, seeing a significant reduction in the number of persons being employed in new jobs. In general, respondents in North America, the Middle East and western Europe reported the largest improvement if the trend is observed over two years and one year. The central and eastern Europe region and Africa, on the other hand, have seen modest gains in employment.

In particular, respondents in the UAE reported the biggest employment gains, alongside those in China and the US, in Q4. The UAE's results reflect its expanding role as a global trade and trade finance hub, while the increase in China is counter to some of the suggestions of economic slowdown in that country. In contrast, building tensions in Russia through 2014 led to a slowdown in recruitment in Q4, suggesting that economic slowdown in the country in 2015 is probably inevitable.

Regionally, job growth was greatest in the Middle East (34% of respondents thought the situation had improved) and North America (30% of respondents believed this to be the case) compared with three months ago. There was a significant fall in the number of new hires in regions such as central and eastern Europe (62% of respondents believed the situation to be worse than three months ago) and Africa (47% of respondents thought this to be true): the well-documented slowdown in Russia is a primary contributor to the freezes in central and eastern Europe, while lower oil prices, and therefore tighter cost constraints in the African and Russian oil sectors, may have contributed to this adverse trend.

34%

34% of respondents in the Middle East felt there were more jobs being created in Q4.

Figure 7: Regional employment index

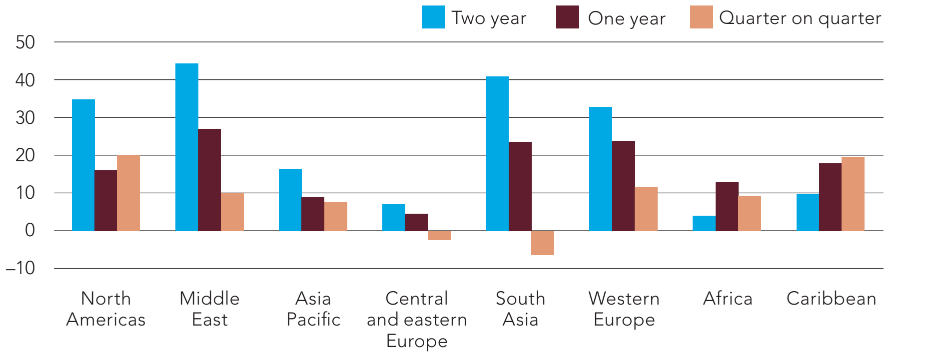
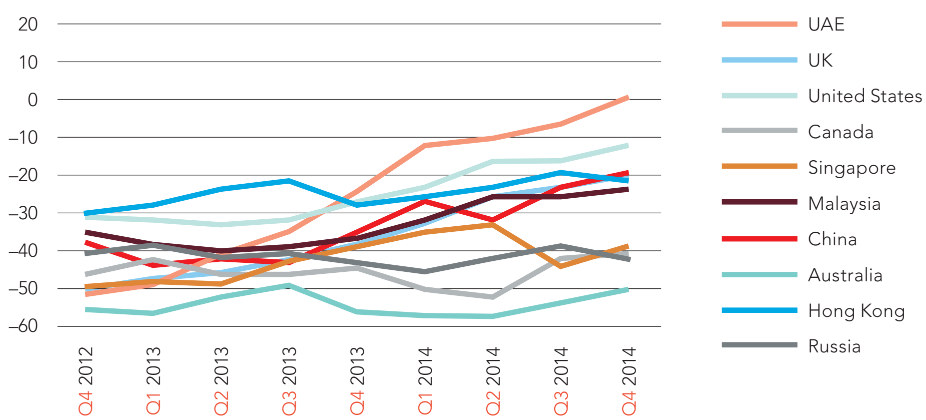


Figure 8: Country-specific employment index



3.3 BUSINESS DYNAMISM: NEW ORDERS

South Asia is the region with the strongest pick-up in new orders (reported by 33% of respondents) while the US was second highest, reported by 26%. Interestingly, Caribbean respondents also saw a rise in new orders since Q3 and this may well be a result of the region's proximity to the US and any spillover effects that might arise from an improved US economy.

In contrast, reports of orders in central and eastern Europe, Asia Pacific and Africa were declining: 33% of respondents in central and eastern Europe and Asia Pacific, and 29% in Africa reported a decline while in central and eastern Europe there were greater concerns about customers going out of business than in any other region, with 29% experiencing this in Q4 compared to 23% in Q3.

33%

of respondents in south Asia have seen an increase in new orders since Q3.

Figure 9: New orders per region

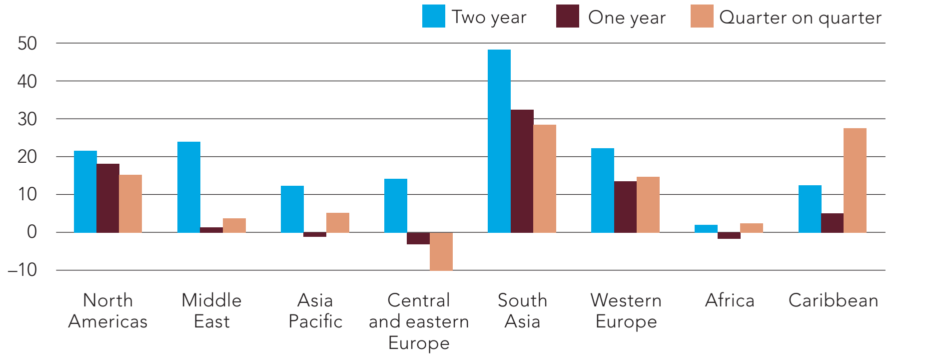
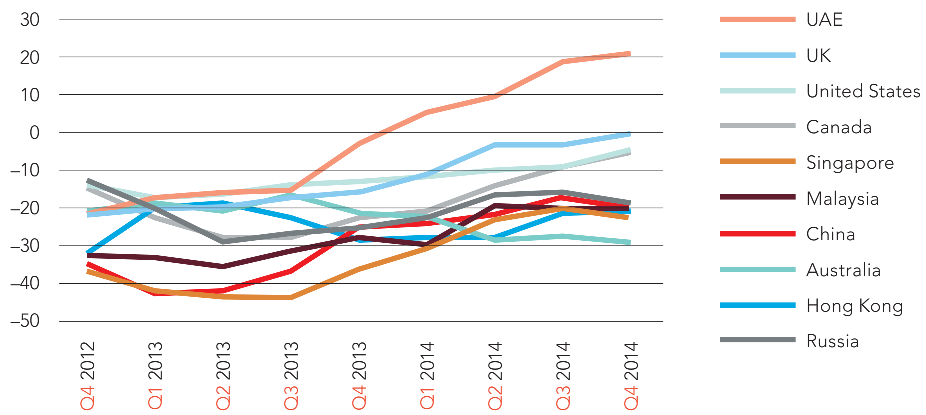


Figure 10: New orders country specific



3.4 BUSINESS DYNAMICS: INVESTMENT

The survey indicates the UAE is one of the leading investors in capital by a considerable margin – with the US and Canada also experiencing positive gains in 2014. Russia and Malaysia have seen a sharp drop in investment in capital – greater for Russia than Malaysia.

The survey throws up some interesting results for the regional investment climate. Investment in both capital and staff has improved in the Middle East and North America. The Middle East is sharply increasing capital investment, with 38% of respondents believing this to be greater than it was in Q3, and 23% believing this to be true for investment in staff. In North America the corresponding figures were 26% for capital and 26% for staff. Among individual countries, reports of the greatest increase in investment in staff came from the UAE, the US, UK and, to a smaller extent, Canada, Malaysia and Singapore. Russia saw the sharpest dip, along with Hong Kong, China and Australia – the last having some reliance on the Chinese economy; respondents in all these countries reported suffering somewhat in Q4 2014.

The survey also indicates that the regions that tended to cut back on capital expenditure were eastern Europe (reported by 60% of respondents) in capital and (40% of respondents) in staff. Respondents from Africa (45%) and the Caribbean (48%) were more likely to reduce staff hires, while 54% and 43% were respectively scaling back capital projects.

35%

35% of respondents in the Middle East thought that capital investment had improved in Q4.

Figure 11: Investment in capital by country

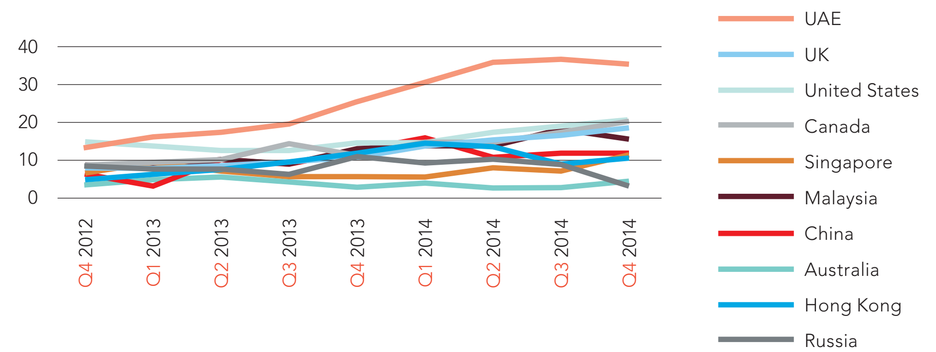
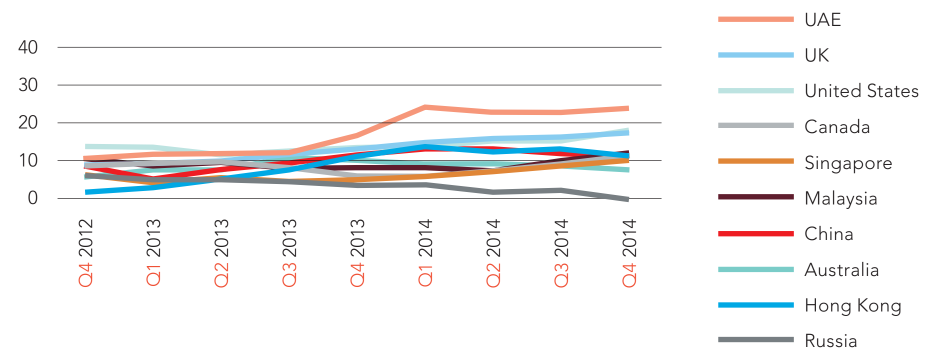


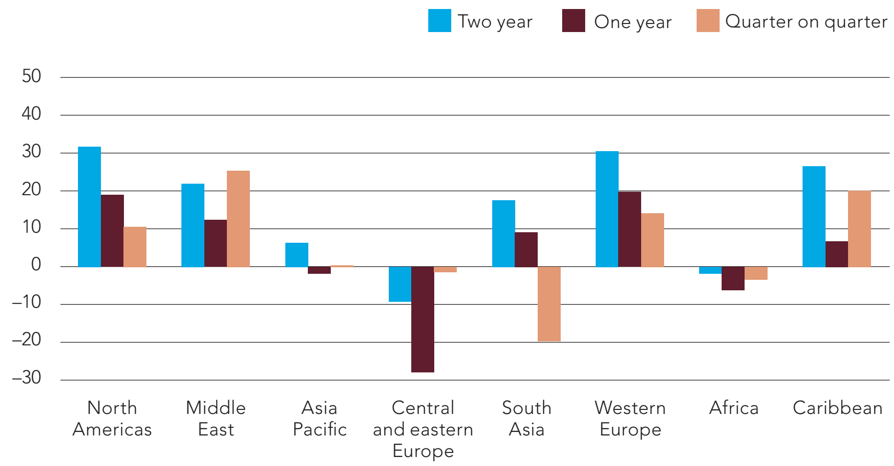
Figure 12: Investment in human capital by country



IN FOCUS: REGIONAL CHANGES TO CAPITAL EXPENDITURE

In addition, the amount of capital expenditure being spent by businesses varies from region to region. The survey suggests there has been a negative quarter-on-quarter movement in the amount of capital expenditure being spent on maintaining long term assets in both south Asia and the Asia Pacific regions. The Middle East experienced the largest capital expenditure increase between Q3 and Q4. Interestingly, despite the continuing economic concerns in western Europe, capital expenditure grew faster between quarters Q3 and Q4 than it did in North America. Unsurprisingly, capital expenditure in central and eastern Europe reduced substantially.

Figure 13: Capital expenditure by region



In general, the final quarter of 2014 showed a slowing down of economic growth.

3.5 BUSINESS CHALLENGES: DEMAND FOR CASH

Cash flow is always one of the biggest challenges for businesses, especially in a difficult economic climate, and responses to questions on the demand for cash suggest how this is contributing to the general economic climate as indicated by the GECS.

Australia and Russia are experiencing a weakening in their demand for cash. Although the changes in sentiment are more obvious in Russia, Australian respondents' experience of current economic conditions is very interesting. For a number of years now, Australia has relied heavily on the Chinese economy as a source of growth for itself – the commodities boom has helped Australia grow at favourable rates compared with other developed nations. Chinese demand remained constant throughout the last decade and only now is that demand falling away – this in turn is having negative repercussions for Australia. The GECS respondents suggest that cash flow is gradually slowing, meaning that fewer transactions may well have occurred in the last quarter of 2014 than in the previous quarter.

Figure 14: Regional cashflow demand and strength

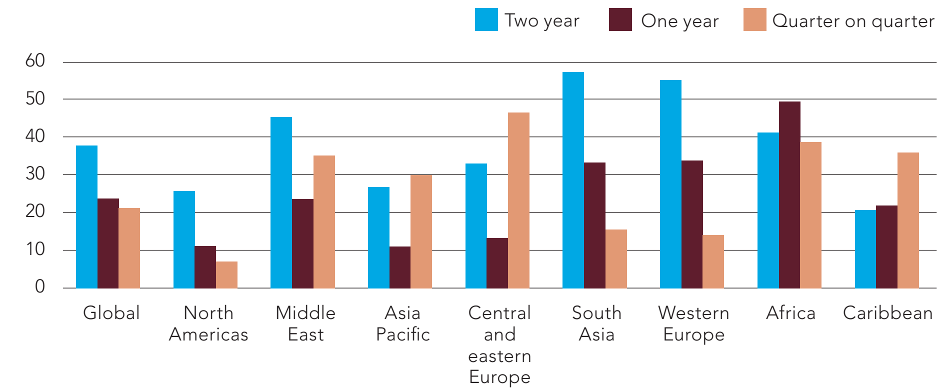
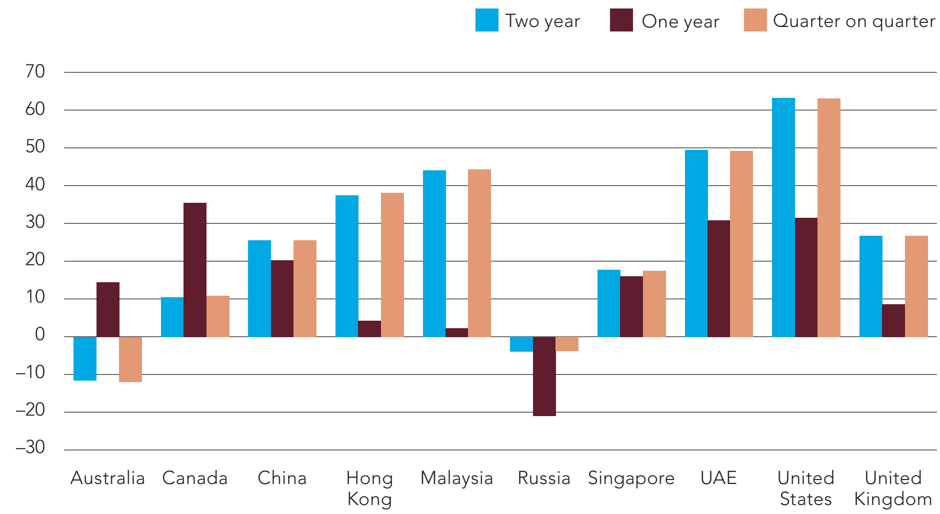


Figure 15: Country-specific cashflow demand and strength



4. Conclusion

The final quarter of 2014 showed slowing economic growth globally.

The final quarter of 2014 showed slowing economic growth globally, nervousness about potential slowdown in Asia, and in particular China, and sustained concerns about the economic fallout from geopolitical tensions in the Middle East and Russia–Ukraine. The Ebola outbreak in Africa was acknowledged to be creating long-term economic effects while a fragile calm in Europe ahead of quantitative easing measures by the European Central Bank meant that broader optimism surveys, such as the Purchasing Managers Index (PMI), ended the year on a positive note. Against this backdrop, the US economy continued to steam ahead with non-farm payroll and employment data showing record growth and trade, particularly exports, picking up.

All these phenomena are, to a greater or lesser extent, reflected in the results of the GECS for Q4. Overall, the results suggest a mild optimism for 2015, but this is tempered by variation across global regions.

- Responses in central and eastern Europe are clearly affected by the geo-political uncertainties within that region. Confidence is substantially lower, with Russia itself showing the most marked deterioration. There is less evidence of new hiring activity and of capital investment, suggesting that businesses in the region are expecting tough times ahead.

- Responses in the Middle East and North Africa region suggest some nervousness around the fall-out from the situation with ISIS. Despite weaker confidence, there is more investment in staff, suggesting that the role of the region as an energy and infrastructure distribution hub is growing.

- Responses in Europe reflect a reduction in business confidence amid continuing concerns about low demand in the region. Nonetheless, lower oil prices and deflation more generally do not seem to be holding back capital investment, for which responses indicated higher growth in Q4 than for the US.

- Responses in the US and south Asia are the strongest. This reflects two things: the resurgence of the US economy, with growth in hiring activity and the employment index both in line with successive improvements in non-farm payroll data over the past few months. Export growth is strong, and this is reflected in significant reported investments in staff in the US. Similarly, as China restructures its economy and moves some of its supply chains in consumer electronics out to other countries, it is south Asia that is benefiting. Respondents indicated that new hires and confidence are increasing here.

There are grounds for mild optimism from the Q4 2014 GECS but it is important to remember that the confidence is imbalanced and highly dependent on North America. China's slower growth and the continuing demand deficiency and deflationary pressures in Europe mean that the imbalances in confidence are mirrored by imbalances in economic recovery. The fact that CFOs were more negative than other respondents suggests that there are still issues that businesses face arising from underlying financial fundamentals such as access to finance and late payments.

The risks as the world entered Q1 of 2015 are self-evident. The ECB's latest round of QE may not be enough to prompt banks to lend at levels that are sufficient to help recovery along. Furthermore, current political tensions and concerns in the Africa region (Ebola) and eastern Europe (Russia–Ukraine), and the rise of Islamic State in the Middle East will have destabilising effects on any recovery. As reported in the press, the IMF may well be right to call these issues strong 'headwinds'.

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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