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in Business

Think Ahead ACCA

Global economic conditions survey report: Q1, 2015

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 92 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: Q1, 2015

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.

Fieldwork for the Q1 2015 GECS took place between 27 February and 17 March 2015, and attracted over 900 responses from ACCA and IMA members around the world; over a third of whom were senior finance professionals, including just under 100 CFOs.

Executive Summary

Clear evidence of improving economic conditions across the world.

The first Global Economic Conditions Survey (GECS) report for 2015 shows clear evidence of improving economic conditions across the world. Overall sentiment has improved for the second quarter in a row suggesting that businesses, CFOs and their advisers are beginning to sense mild economic optimism.

Recovery is still however 'work in progress': there were positive responses in Africa and Europe in particular, while Asian responses, which were showing improvement in terms of sentiment and new orders, were less positive about investments in employment.

CFOs appeared more positive in their responses than in Q4 2014. In fact, their confidence was at its highest level since the survey began in 2009. That said, CFOs of larger organisations tended to be less positive than those from smaller businesses, suggesting that those with greater exposure to the international business climate may be more vulnerable from slower than expected growth in Asia and China in particular. Even though CFOs were positive, investment in capital responses were weaker than in Q4 2014.

Across the world, respondents were experiencing fewer issues with late payments and fewer had concerns about suppliers or customers going out of business. However, more businesses saw 'non-value adding' opportunities compared to the end of 2014.

Africa showed the biggest improvement in sentiment, employment and investments – particularly in people. This suggests that the effects of the Ebola crisis in parts of Africa and the falling oil and commodity prices were beginning to work through the economic system with confidence gradually returning.

In contrast to Q4 2014, responses in North America seemed more muted. Business confidence in the region as a whole fell in Q1 2015, and although confidence in the US grew, this was at a slower rate than in Q4 2014. Employment, new orders and capital expenditure have fallen back quarter-on-quarter and although they were much higher than two years ago, the responses suggest that there are reasons to suspect that the US in particular is not yet strong enough to warrant a rise in Fed interest rates.

Responses in Europe appeared stable. Confidence has increased again, in line with other surveys, such as the ZEW sentiment indicators and the PMIs in Q1 2015. Employment and investment responses improved, although capital expenditure and new orders both fell. It is too early to claim that the effects of quantitative easing are being felt on the ground.

Asian and south Asian responses showed continued improvement in Q1 2015, although the pace of improvement has slowed slightly. Asia Pacific was the only region where capital expenditure responses improved year-on-year, while south Asia was the only region which saw a quarter-on-quarter improvement in available investment capital.

1. Introduction

The latest International Monetary Fund's World Economic Outlook (WEO) forecasts that world growth will be around 3.5% during 2015. This suggests modest recovery or, at least, stabilisation in the developed economies alongside weaker performance in emerging economies. What is clear from the WEO report is that the IMF is seeing patchy and uneven economic performance across the world. Some of this is due to lower oil prices, which have helped oil-importing nations such as the US and a number of EU countries (Germany in particular), but which have undermined performance in many net oil-exporting regions, such as Asia Pacific and the Middle East. Since many net oil exporters are emerging economies, this is dampening both their trade and their GDP outlook.

Accordingly, Q1 of 2015 reflects the uncertainties and unevenness of recovery across the world. Europe, in particular, shows signs of stabilisation, if not improvement. Rather unsurprisingly, given the political climate, the fall in sentiment in Russia reflect the economic circumstances brought about by sanctions and depressed trade revenues as a result of lower oil prices. Reduced capital expenditure in Europe is a challenge and suggests that the immediate effects of quantitative easing may well have been to push capital on to equity markets rather than into investments (Figure 1).

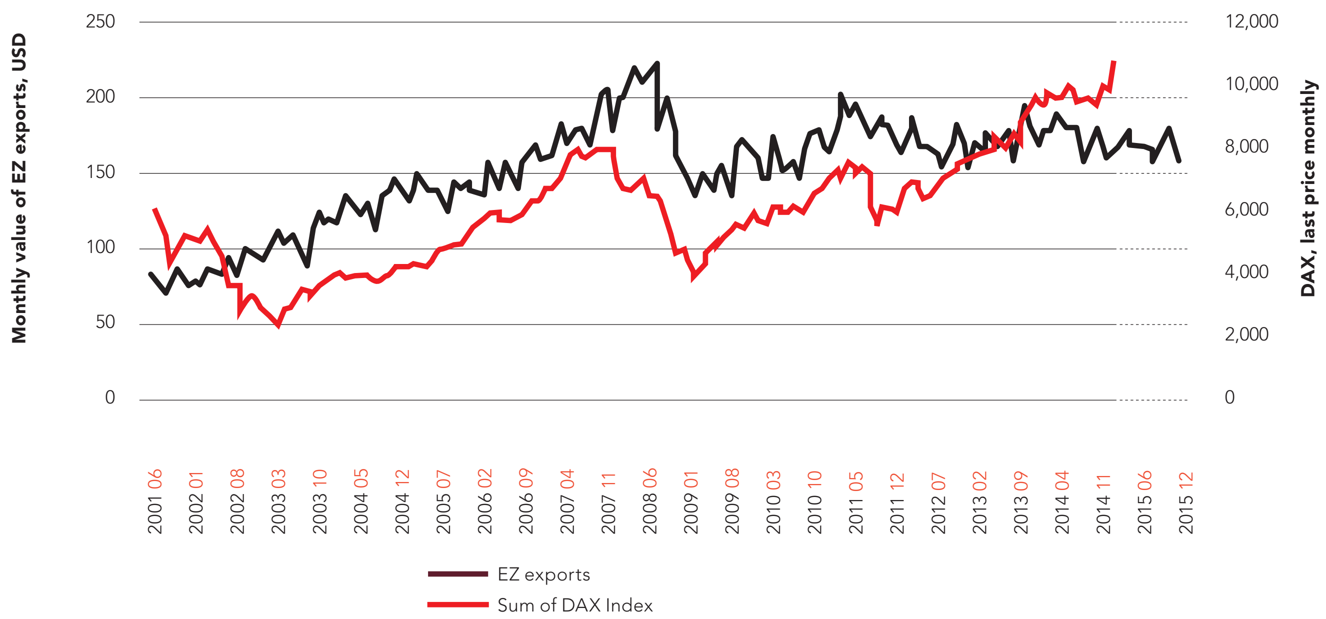
Conversely, the Middle East is exhibiting negative responses: political turmoil and instability in the area appear to be spilling over into other markets. Nowhere is this more evident than in the UAE where, in just one quarter, sentiments have turned sharply in the wrong direction. Dubai, in particular, has seen property prices fall over the course of the year, and the amount of debt held by state related entities has ballooned and is now estimated to be worth around $140bn (IMF estimate). In line with recent media reports (BBC News, 12 April 2015), this could be an early sign that Dubai's real estate market is in trouble.

The world has become used to success stories from the Asia Pacific region but China, whilst in relative terms is performing well, is under-performing in terms of its economic history of the past 15 years. Slower economic growth in China may well be a sign that the process of rebalancing is taking place, with services now constituting a larger part of the Chinese output. While this may not be affecting the responses generally in the Asia-Pacific region, which were still strong, Australia's responses were more negative than they were in the previous quarter.

Australia's economy has co-evolved with China's and it is the first to feel any downturn in China, both in terms of its lower exports of iron ore and coal, but also in terms of luxury items like wine.

The story across the GECS for Q1 2015 is mixed but there is one encouraging story, which is particularly important. Responses in Africa, parts of which were ravaged by the Ebola outbreak during 2014 and which felt the impact of the recent fall in oil and commodity prices, were substantially more positive in Q1 2015. Confidence has improved, investment is increasing and opportunities and new orders were higher than in Q4 2014. While it is too early to call this a full return to pre-Ebola growth, it does suggest that the worst may be over.

Figure 1: Monthly value of Eurozone exports versus the DAX index, (includes forecast to December 2015)



2. Global Business Confidence

Business confidence is on the rise.

2.1 THE GLOBAL TREND

For the second quarter in a row, the GECS has shown that business confidence is on the rise. Positive sentiment in Q1 2015 of this year appears to be far more prominent than in previous quarters, suggesting that, overall, confidence is beginning to take hold within the business environment, across a number of regions.

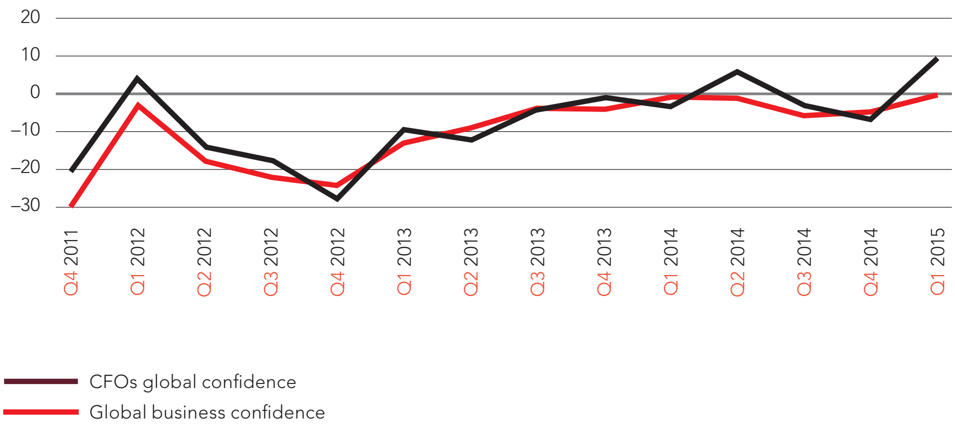
Fewer respondents reported feeling less confident about the business environment in Q1 2015 than three months ago. Some 31% of respondents reported feeling 'less confident' in Q1 2015 compared to 37% in Q4 2014. More respondents reported 'no change' in the business environment: 35% felt nothing had changed from three months ago compared to 31% in Q4 2014. There was a slight improvement in those reporting 'more confidence' this quarter: 33% reported feeling more confident compared to 32% in Q4 2014.

There was growing confidence in the views of CFOs where there was a sharp upturn between quarters, however, those in in larger corporations tended to report feeling less confident than CFOs in smaller organisations. In Q1 2015, 35% of respondents from larger companies felt less confident than three months ago, compared to 30% from SMEs.

33%

Globally, 33% of the respondents felt that business confidence had improved.

Figure 2: Global business confidence



There is less concern about suppliers and customers going out of business.

2.2 BUSINESS OPPORTUNITIES

For the second quarter in a row, the survey suggests the economic situation is improving, if slightly, as we see a decline in negative sentiments: there is now less concern about suppliers and customers going out of business, or problems securing payment, and an increasing hope that revenues are expected to rise going forward.

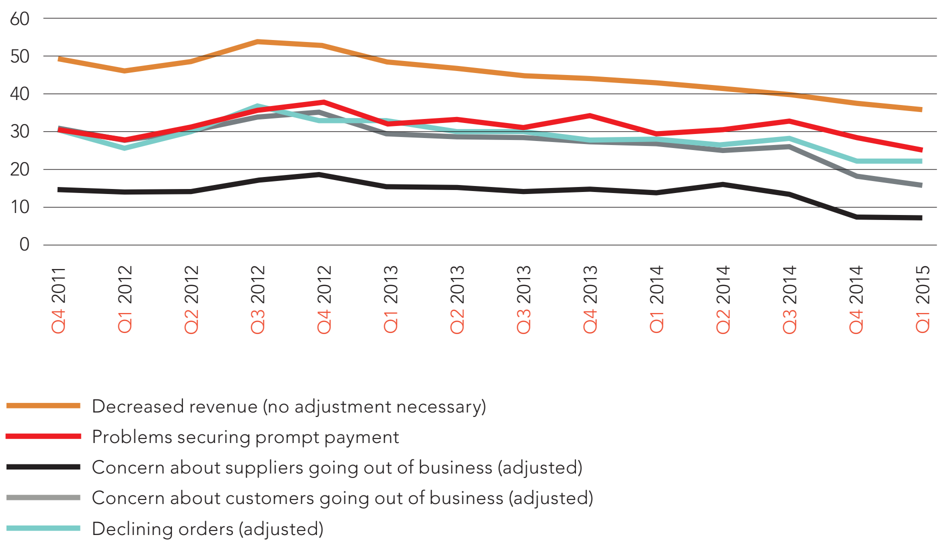
In terms of securing prompt payments, 40% of respondents in south Asia experienced difficulties receiving payments on time, with those in Africa (36%) and Western Europe (34%) experiencing the same issues too.

Rising costs were another hindrance to businesses: 50% of respondents in the Asia Pacific region felt that costs were growing suggesting that inflation amongst other factors is a growing concern in the region. This was also a concern with respondents in regions such as Africa (46%) and North America (46%) too.

22%

22% of respondents reported seeing more profitable opportunities in Q1 compared to 20% in Q4.

Figure 3: Global orders and cash flow indices

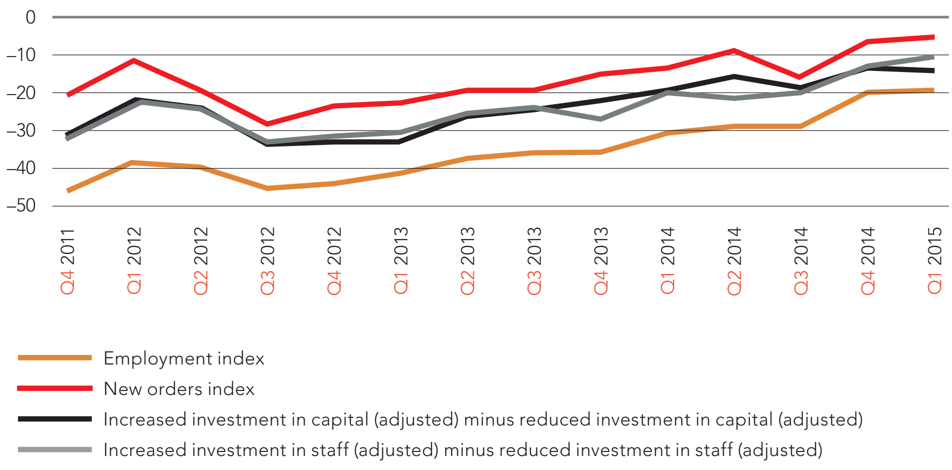


2.3 BUSINESS DYNAMISM

Dynamic factors such as employment, new orders and increased investment in both capital and staff have seen some modest gains this quarter. Investment in staff has seen the sharpest rise, suggesting that companies are slowing starting to hire again. Exactly how this is spread across the regions will be addressed in the next section of the report.

There was a growth in profitable opportunities being reported, with 22% of respondents overall reporting 'more opportunities' in Q1 2015 compared to 20% in Q4 2014. There was no change in the number of respondents that felt 'new jobs' were being created, it remained the same as last quarter at 23% in Q1 2015.

Figure 4: Global dynamism indices



3. Winners and losers

Africa has seen the greatest gains in business confidence in Q1.

3.1 BUSINESS CONFIDENCE: REGIONS[1]

As expected, business confidence varies between the regions.

In an atypical fashion, North America has seen business confidence slip between quarters. There was a drop in respondents reporting 'more confidence' in Q1 2015: 34% of respondents compared to 46% of respondents in Q4 2014, with the majority of respondents reporting 'no change' (39%) at all.

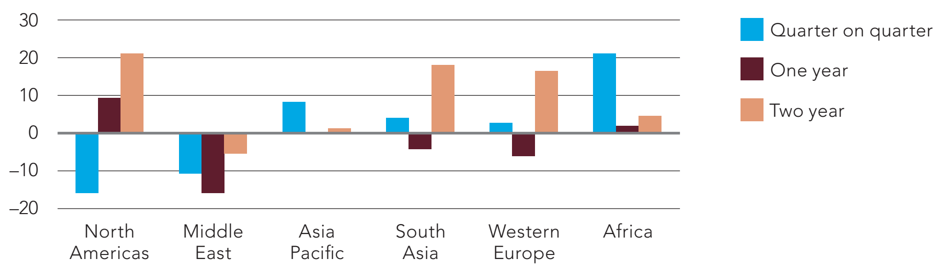
Africa saw the largest gains from last quarter – and this can be partly attributed to the containment of Ebola. Whereas in western Europe, business confidence seems to be more stable than it was two years ago, with a growing number of encouraging responses reported in Q1 2015 than in Q4 2014.

Understandably, with rising tensions in the Middle East, the proportion of respondents reporting that business confidence had declined since the last quarter has grown.

Closer examination of the country-level trends show that Ireland, once known as the 'Celtic Tiger', is steaming ahead of other countries, while Mauritius and Singapore have experienced an uptick in confidence too, albeit from a lower base.

Interestingly, Australia dipped for the second quarter in a row, with the change from Q4 2014 to Q1 2015 being the sharpest decline for some time. Australia's well documented recession and reliance on the Chinese economy may have hindered confidence.

Figure 5: Business confidence: regional differences



1 Regions such as LATAM, CEE and the Caribbean have been omitted from the analysis because the sample size falls short of reporting threshold (n>50). While Russia has been included in some of the country-specific graphs, it remains so for illustrative purposes only.

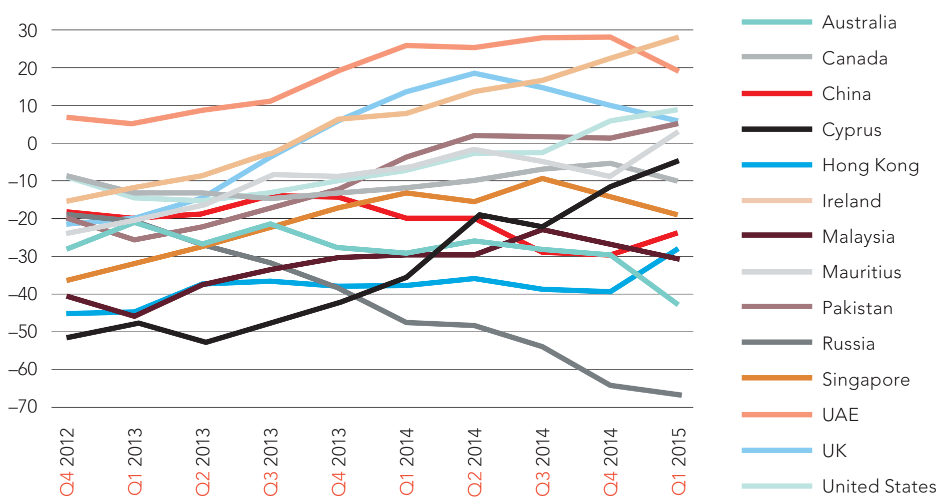
The UAE has also seen business confidence diminish over the last quarter, so too has Singapore, which has seen two consecutive negative quarter growths in confidence. Domestic reforms and tighter measures against financial irregularities may have impacted negatively on the business climate in Singapore.

In contrast, Hong Kong has seen business confidence grow sharply in Q1 2015, in line with sentiments in China, where business confidence improved in the first quarter of 2015.

The UK has seen three consecutive negative quarter growths in business confidence: much of this could be down to the political uncertainty around May's general election, and the threat of deflation experienced at the start of the year might have added to the negative expectations.

Business confidence has improved for another quarter in the US, possibly due to the growing dynamism of its domestic consumption, which is boosting the economy.

Figure 6: Four-quarter moving average: country-specific business confidence



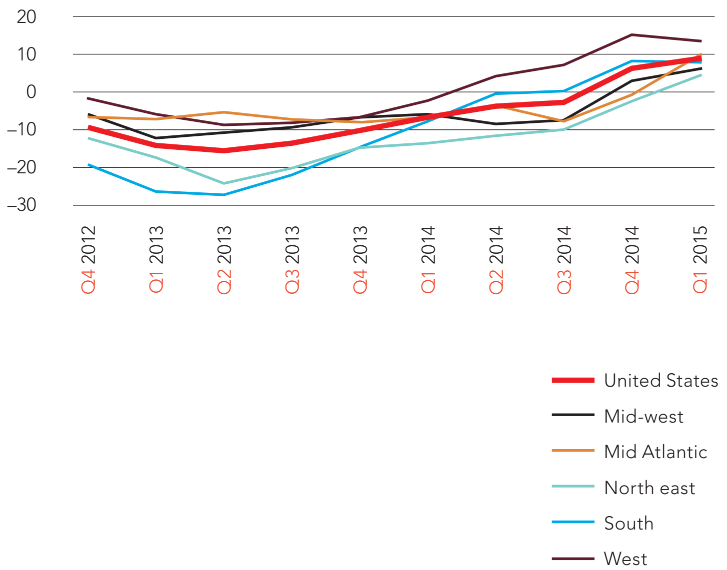
IN FOCUS: US BUSINESS CONFIDENCE

Continuing on from the trend exhibited in Q4 2014, the western states tend to report more optimistic outcomes when it comes to business confidence, closely followed by states in the south.

The mid-Atlantic states have seen the sharpest rise in business confidence, moving slightly ahead of the overall US average.

Overall, the situation appears to be improving more evenly across the US than some reports might suggest.

Figure 7: US business confidence by regions



The UAE has seen the sharpest decline in new hires in Q1.

3.2 BUSINESS DYNAMISM: EMPLOYMENT

The rate of employment or new hires in Western Europe is significantly greater than two years ago – the change between quarters was interesting too, some 28% of respondents reported a growth in new hires had taken place in Q1 2015. The same is true, albeit to a smaller extent, in south Asia.

North America has also seen employment of new hires grow at a steady rate: 30% of respondents thought there had been a growth in job creation in the region.

The situation is reversed, however, for the Middle East where there has been a sharp decline in new hires since the last quarter Q4 2014: 50% of respondents reported a decline in new hires. This trend can also be seen in the Asia Pacific region, which too reported a 50% decline in new hires in Q1 2015.

Africa too witnessed a similar fate in this quarter: 48% of respondents reported a decline in new hires in Q1 2015. It appears that some countries in Africa might be struggling to get back on track in terms of finding suitable hires after the Ebola crisis, and the oil and commodity price shock.

Closer examination of country data shows that in line other trends, Ireland is moving ahead of the curve with the number of new hires being reported, with the US following closely behind. The US labour market remains sensitive to market changes, often cutting quickly during a downturn and hiring rapidly when things begin to pick up.

In contrast to Q4 2014, the UAE in Q1 2015 has sharply reduced its intake of new hires, which suggests the economic climate is not as sound as in previous quarters. In line with the trend above, Australia and Singapore have reduced their new hires. Both economies have, in the recent past, been heavily dependent on the Chinese economy and so remain sensitive to any changes that might occur.

Figure 8: Changes in employment rate by region

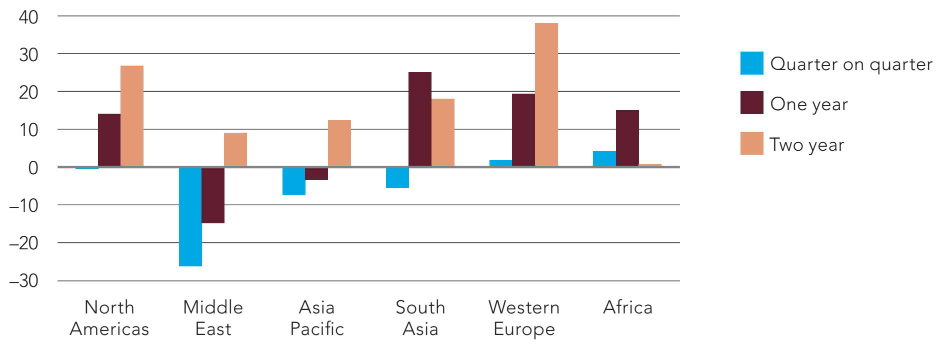
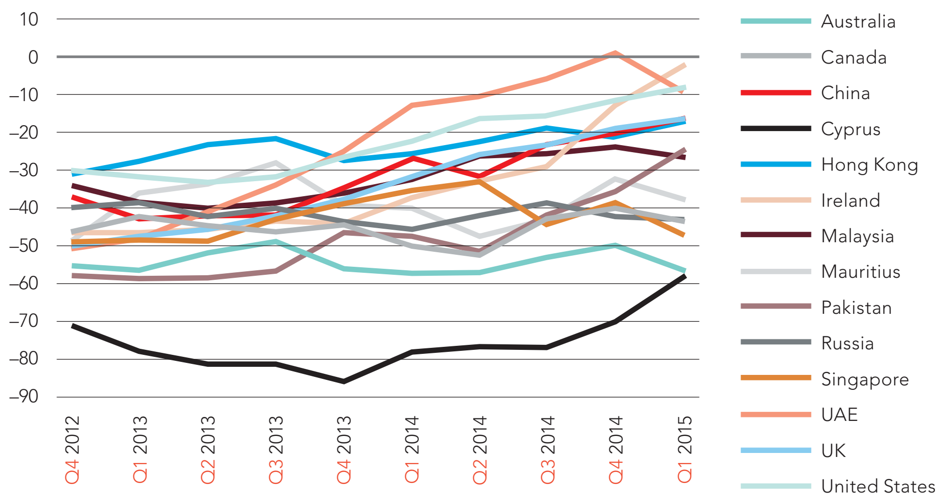


Figure 9: Employment index by countries



There was a pick-up in new orders from the US, Ireland and Canada.

3.3 BUSINESS DYNAMISM: NEW ORDERS

Declining orders were felt in regions such as the Middle East, where 30% of respondents reported a contraction of orders being made from Q4 2014, but also in Asia Pacific (27%) and rather surprisingly, North America (27%) too.

Of all the other regions in the survey, there was greatest concern with customers going out of business in the Asia Pacific region, some 23% of respondents felt this was the case, compared to North America, where concerns were least evident (only 15% of respondents felt this was so), which is expected given the condition of the domestic economy.

There was a pick up in new orders coming out of countries such as the US, Ireland and Canada, and to a lesser extent, China. Indeed, while this increase has been modest in comparison to historical trends, it has risen somewhat since the last quarter.

In line with other sentiments, there has been a sharp decline in new orders in the UAE and Singapore for reasons stated before. Interestingly, the UK saw a slight dip in new orders in Q1 2015, implying the recovery may not be as stable as some reports might suggest.

30%

30% of respondents in the Middle East thought that new orders had decreased in Q1 of 2015.

Figure 10: New orders by region

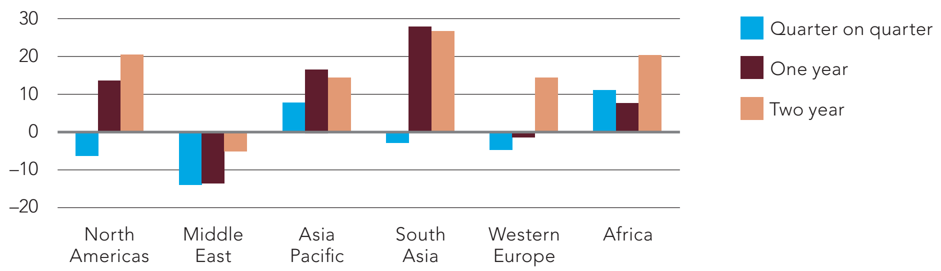
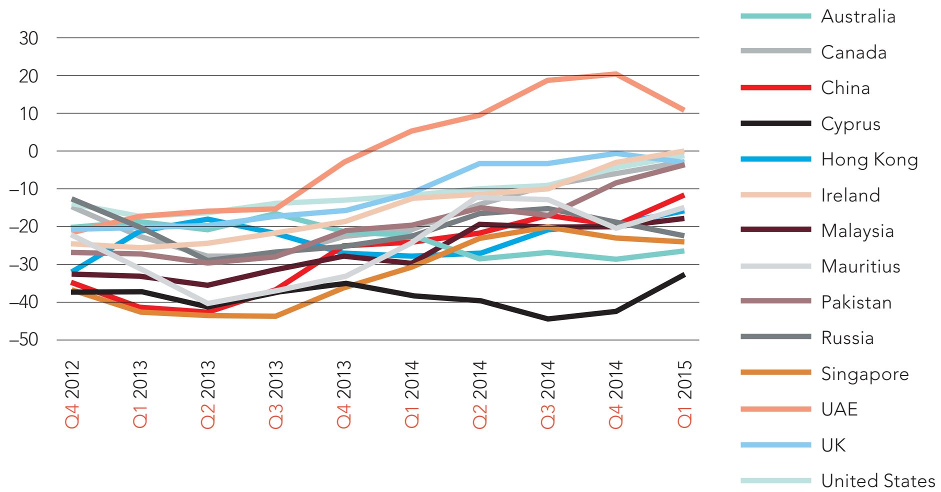


Figure 11: New orders by country

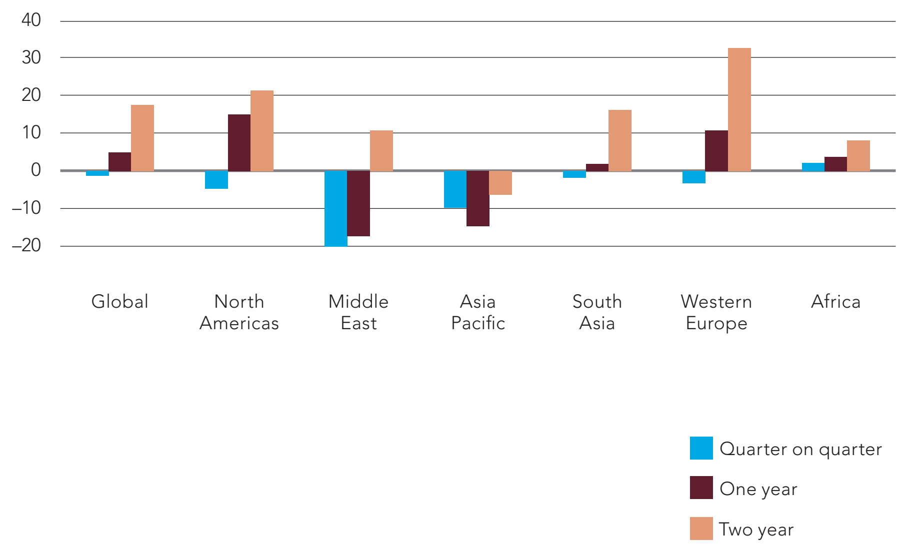


IN FOCUS: CAPITAL EXPENDITURE

The amount of capital expenditure being spent varies from region to region. The sudden contraction in the Middle East from last quarter is worrying news and this suggests deeper underlying problems at work in the region. Spending on capital expenditure projects has also diminished in the Asia Pacific region.

However, there is good news from Africa, which has seen a steady growth from last quarter.

Figure 12: Capital expenditure spending by region



Australia and Hong Kong experienced a drop in investment in capital in Q1.

3.4 INVESTMENT IN CAPITAL

Respondents in the Asia Pacific region reported strong results regarding the lack of profitable opportunities available, with 58% of respondents believing this to be lacking compared to only 38% in North America.

Africa and the Asia Pacific region also experienced a decline in investment going to capital projects: in Africa only 10% and Asia Pacific (13%) of respondents felt that investment was improving in this area in Q1 2015.

There was some good news in terms of country-specific trends: investment in capital increased substantially in Q1 2015 in Ireland, US, Pakistan, China and the UK.

In line with the sentiment above, Australia, Hong Kong and Malaysia experienced a reduction in capital investment in Q1 2015.

Figure 13: Investment in capital by region

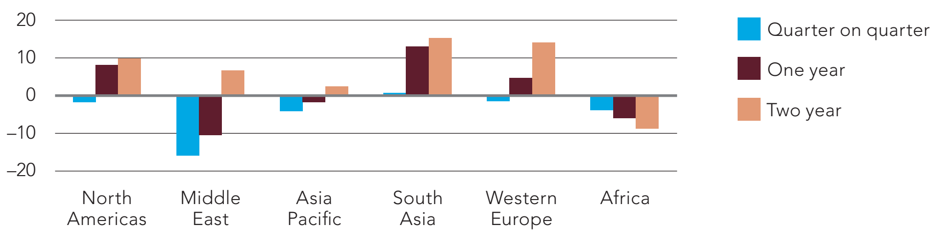
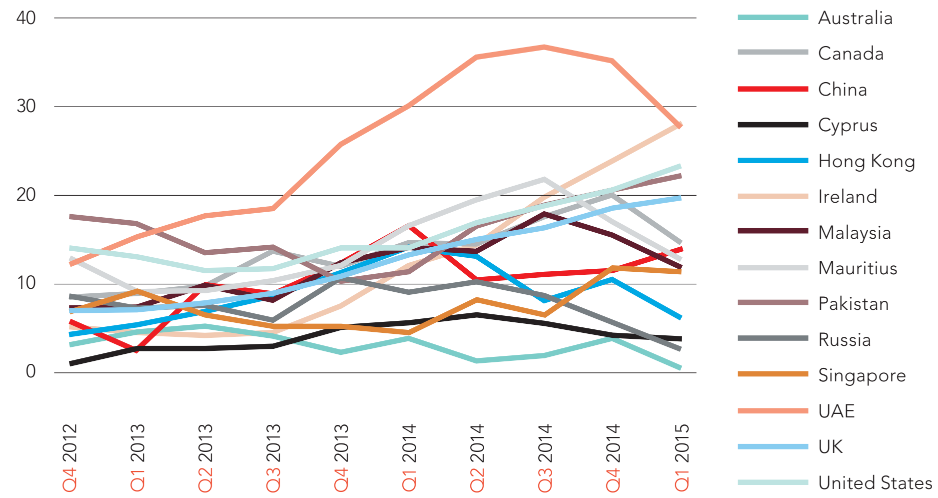


Figure 14: Investment in capital by country



Malaysia experienced a decline in staff investment in Q1.

3.5 INVESTMENT IN STAFF

There was encouraging news coming out of Ireland, the US, and UK which all experienced a sudden surge in new hires or investment going towards staff in Q1 2015.

On the other hand, respondents in the UAE experienced a sharp detraction of new hires, as did those in Malaysia, which saw investment in staff fall over the quarter.

Figure 15: Investment in staff by region

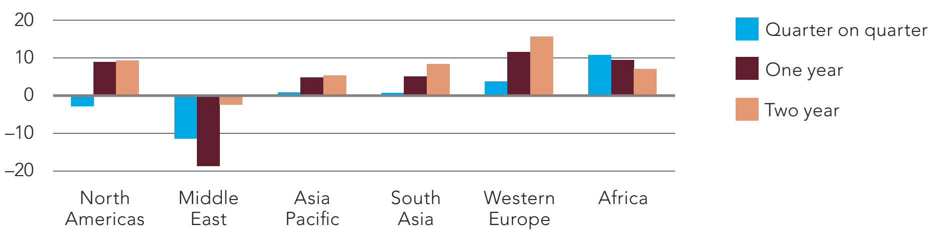
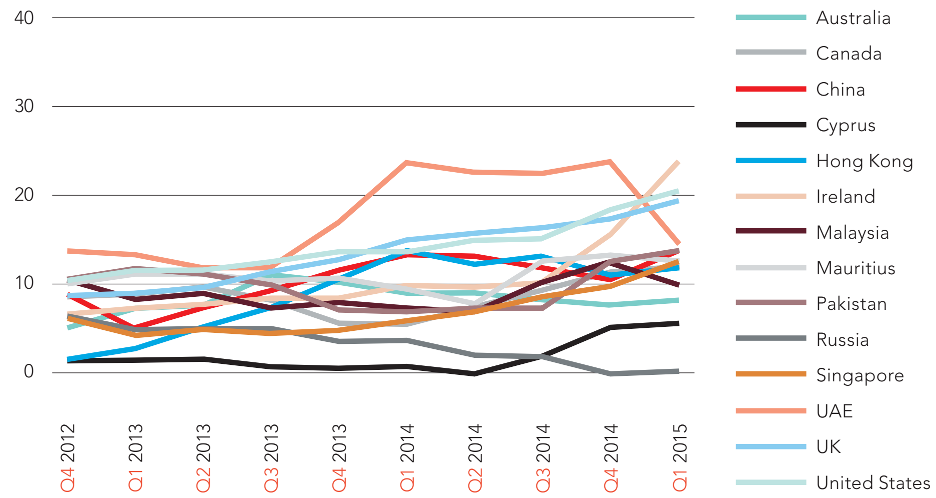


Figure 16: Investment in staff by country



Respondents in China felt more confident about the availability of cash flow than three months ago.

3.6 CASH FLOW DEMAND AND STRENGTH

Having access to cash flow ensures that a business has sufficient liquidity to honour current and future orders, pay staff costs, and invest in future capital expenditure projects. The availability of cash flow decreased dramatically in Africa (57% of respondents thought this was the case) and the Middle East (38% of respondents), suggesting that, compared to three months ago, getting hold of sufficient loans to fund businesses investment is becoming increasingly difficult in these regions.

In contrast, respondents in Ireland believed that access to cash flow had improved over the course of the year and especially so in the last quarter of 2014 and into the first quarter of 2015. China also warrants a mention too, where respondent felt more confident about the availability of cash flow compared to the previous quarter.

Respondents in Hong Kong, Singapore and Canada all reported experiencing issues when it came to accessing adequate cash flow from financial institutions or intermediaries.

Figure 17: Cash flow: demand and strength by region

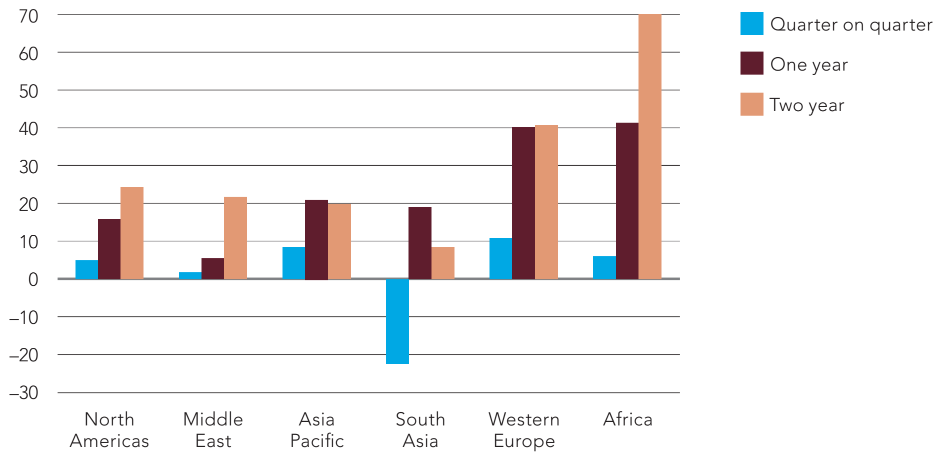
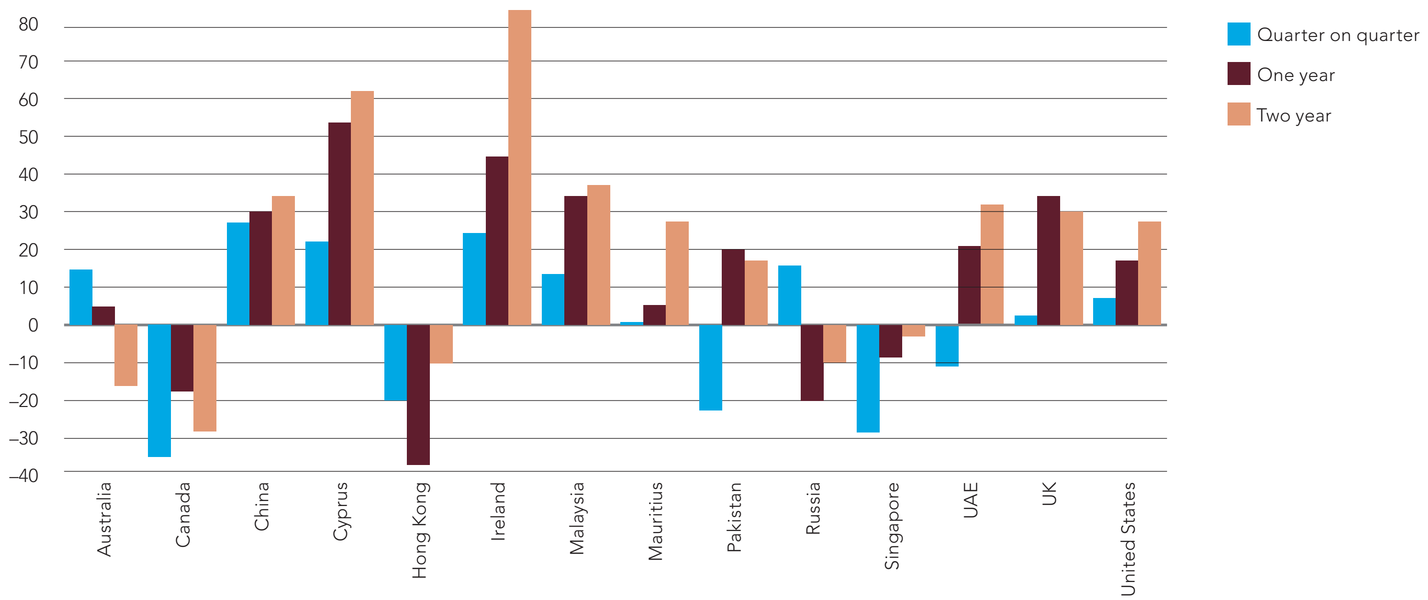


Figure 18: Cash flow: demand and strength by country



4. Conclusion

Mild optimism is tempered by substantial uncertainty still.

The GECS for Q1 2015 gives further ground for mild optimism in that it represents the second quarter in which sentiment has improved. Respondents saw fewer challenges in terms of revenues; and while capital expenditure and capital investments fell back slightly, investments in staff, new orders, employment and general sentiment appear to have improved further on their increases in Q4 2014.

There were four areas of particular interest. First, the increase in sentiment, new orders and investment across Africa suggests that the region may be beginning to pull away from the traumas in trade and business terms of the Ebola crisis, and the fall in oil and commodity prices. The largest increases in cash flow, investment in staffing and capital expenditure were in Africa and while investment expenditure was negative, this is in line with responses elsewhere across the world.

Second, western Europe, as in Q4 2014, shows remarkably stable responses to the survey. It is too early to talk about the positive effects of quantitative easing. The fact that investment expenditure and capital expenditure were lower this time around may suggest that investment capital is flowing into equity markets rather than into real business growth, as happened post-QE in the United States. That said, responses around sentiment, revenues and orders, as well as employment, were strong – unlike in the US – where some of these responses had deteriorated.

Third, the fact that some of the North American responses had worsened suggests that the region is not yet out of the woods. There has been discussion in the US about the strength of economic signals coming through: while there may be some inflationary pressures building. While growth appears to be strong, some data, such as US Consumer Durables data has disappointed in Q1 2015 so growth may not be quite as robustly founded as is commonly supposed. Uncertainties around a potential hike in interest rates, however small, may be making US companies slightly more wary of investments and this may be behind some of the more negative numbers.

Finally, the CFOs surveyed were generally positive than they were in the previous quarter. This may well be because, throughout the survey, risks to revenue were lower and cash flow appears to be stronger. However, the CFOs of larger companies were less confident than their counterparts in smaller businesses. The reason for this may be that the larger companies, which tend to be international, are exposed to the uneven recovery and economic performance around the world. Delta Economics research suggests that there are still reasons to be cautious about global trade growth: the World Trade Organisation has reduced its forecast for trade growth to 3.1% in 2015 and the Delta Economics forecast is just 1.4% in 2015. It would be here that these larger companies would be most exposed: if trade is not growing, then neither will revenues be, and this is further evidence that any mild optimism is tempered by substantial uncertainty still.

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.

CONTACTS

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