Global Economic Conditions Survey Report: Q4, 2009

ABOUT ACCA

ACCA 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.

We support our 131,500 members and 362,000 students throughout their careers, providing services through a network of 82 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities. Our focus is on professional values, ethics, and governance, and we deliver value-added services through our global accountancy partnerships, working closely with multinational and small entities to promote global standards and support.

We use our expertise and experience to work with governments, donor agencies and professional bodies to develop the global accountancy profession and to advance the public interest.

Our reputation is grounded in over 100 years of providing world-class accounting and finance qualifications. We champion opportunity, diversity and integrity, and our long traditions are complemented by modern thinking, backed by a diverse, global membership. By promoting our global standards, and supporting our members wherever they work, we aim to meet the current and future needs of international business.

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ABOUT THE GLOBAL ECONOMIC CONDITIONS SURVEY

The fourth ACCA Global Economic Conditions Survey was carried out between 9 and 30 November 2009 and attracted 1,702 responses from ACCA members in 99 jurisdictions around the world. As ever, we are grateful to our members for their time and insights, but even more so to those who took the Q4 survey –making this the largest regular survey of accountants in the world.

In addition to the indicators established over the last year, the Q4 survey examined in detail the ongoing changes in the investment environment, the outlook for government spending and the views of accountants on the priorities, prospects and needs of small businesses. For the first time since these surveys began, our findings appear to justify greater optimism, but closer examination reveals some worrying and persistent trends.

ACCOUNTANTS PREPARE TO CALL THE BOTTOM OF THE DOWNTURN

Our findings reveal a surge in confidence and optimism as the global economy inches ever closer to recovery.

Nearly half (46%) of our members who responded to the Q4 survey believe that economic conditions are either about to improve or already doing so, up from 34% in August. The ranks of the super-optimists in particular have grown substantially: 18% of respondents (up from 13%) now expect a recovery in less than 12 months – although the percentage of respondents expecting a recovery in one year or sooner remained unchanged at 52%.

Governments can claim some of the credit for this new-found optimism. While approval of their interventions has not yet rebounded to the levels seen in May, nearly a quarter (24%, up from 19%) of all respondents now believe their governments are doing a good or very good job.

As a result of these positive perceptions, accountants' confidence in their organisations is now firmly in positive territory. In August, survey respondents were evenly split between those recording confidence gains, those reporting loss of confidence and those whose perceptions were unchanged. This balance is now shifting in favour of increased confidence, with 37% of respondents (up from 31%) reporting gains while 38% (up from 36%) reported no change.

IT JUST MIGHT BE DIFFERENT THIS TIME

Since the downturn began, ACCA has treated evidence of rising business confidence with some scepticism. Yet unlike previous quarters, the latest survey records not only improving perceptions but fundamentally positive developments on the ground. Respondents no longer expect business incomes to fall, although this could very well be a seasonal effect. More importantly, across every key metric employed by the survey, including measures of demand, cashflow, investment and employment, the third quarter appears to have marked the bottom of the downturn. Business insolvencies are reacting strongly to these developments, although, crucially, employment has yet to respond.

These real improvements are extremely encouraging: after a whole year of chasing "green shoots" we may be looking at the real thing. Should these trends persist, the first survey of 2010 could very well record a net improvement in global economic conditions for the first time since these surveys began. This will not mark the end of the downturn – which has at least another year left to run – but it will force policymakers to shift their focus towards preparing their national economies for the recovery.

Yet there are still risks attached to these upbeat predictions. The Q4 survey findings suggest that a number of factors could still put the recovery on hold.

ASIA AND AFRICA POWER AHEAD

The findings of the Q4 survey confirm the sharp divergence in economic trajectories between regions. Asia and Africa are now firmly on the road to recovery, buoyed by rising confidence and revenues, while the economies of Europe and the Americas are still stabilising.

These broad trends, of course, conceal even more intriguing findings. The mood of accountants in the Asia-Pacific region, for example, has darkened somewhat over the last three months as they have been re-assessing the strength of the global economic recovery. These considerations are also reflected in slowing gains in business confidence. On the other hand, confidence in Western Europe and the Americas is now just short of positive territory. Positive net revenue growth may follow within the next three months, a pattern that has so far held elsewhere in the world.

As for our members in Africa, despite rapidly growing confidence they are still more likely to predict a very slow recovery than their colleagues elsewhere in the world – more than 16% expect it to take another 3 years or longer. This is a remarkably persistent pattern, reflecting concerns over fiscal sustainability and political stability, as well as an awareness of how dependent the continent is on overseas demand and incomes.

GLOBAL ECONOMIC RECOVERY: A MOVING TARGET?

The decisive action taken by governments in late 2008 and early 2009 has succeeded in restoring some degree of stability to the global economy, but the possible length of the downturn has since been severely underestimated. As the true legacy of the credit crunch – sluggish growth, credit shortages and mounting government liabilities – becomes ever more apparent, our members are revising their estimates. Taking into account the time lag between surveys, the recovery actually appears to have moved further away in the three months to December.

Additionally, as the recovery draws (relatively) nearer, the percentage of respondents who expect it to be very weak is not only refusing to budge – it has actually been growing. One in nine of the professionals surveyed (11%) now think that the downturn will last for at least another 3 years or more. This hard core of sceptics is not concentrated only in hard-hit developed nations, as one might expect. Instead it is sustained, across sectors and geographies, by a number of global risk factors which do not appear to be receding.

First, investment, especially in human resources, is still falling. 37% of respondents reported a scaling down of investment in staff, while 33% reported falling investment in capital projects. Conditions have not deteriorated since August but investment is still nowhere near positive territory. The primary reason for this is the continued tightening of finance, cited by half (50%) of all respondents, although another 40% concede that investment opportunities have also dwindled in the past three months. Particularly striking is the perception, shared by nearly one third of respondents, that government support for investment has decreased.

Second, employment trends will almost certainly lag those in output throughout the recovery. The percentage of respondents whose organisations or clients are making pre-emptive job cuts despite stable or rising revenues has risen to 17%, up from 14% in August.

Finally, expectations of medium-term government spending, a key predictor of economic optimism, have not changed dramatically since August. Although most respondents (70%) expected their governments to spend more or less wisely over the next five years, a significant minority (13%) expect dangerous levels of over- or under-spending which will serve to prolong the recovery. This ratio has fallen since August (when it was 16%), but is still uncomfortably high, especially in South Asia, the Americas and Central and Eastern Europe.

Encouragingly, the signs of market failure are receding. In the year between Q3 2008 and Q3 2009, 69% of all respondents who saw an increasing number of profitable opportunities emerge also saw the supply of finance tightening. In the last quarter of 2009, this ratio fell by more than half (to 32%), suggesting that suppliers of finance are once again able to exercise a degree of judgement. Furthermore, not all regions are equally affected. Respondents in the Asia-Pacific region are in fact reporting a net increase in the amount of capital available to their organisations, despite a net fall in the amount of profitable investment opportunities – a development, driven by aggressive monetary policy, that carries its own risks for the region.

WHAT IS DRIVING INVESTMENT?

It is clear by now that investment is responding much more slowly to improving economic conditions than perceptions have done. No sector or geography is unaffected by falling investment, or even approaching recovery in this regard.

From a regional perspective, investment appears to be most subdued in Western Europe, Africa and the Americas, while large organisations, especially in the public sector, are scaling back their investment most decisively. On the other hand, the appetite for investment appears to be returning fastest in Asia and among smaller businesses. Regardless of region or sector, organisations are cutting their investment in staff faster than their investment in capital; the only exception are public sector bodies.

A more detailed study of the factors affecting investment reveals that the primary cause for falling capital investment is an emphasis on cost-cutting and a shortage of finance. Businesses will also rein in capital spending if they are concerned about the survival of key suppliers or if new orders are not forthcoming. Falling investment in staff, on the other hand, is primarily a response to low levels of demand and new orders as well as cashflow risks, especially customer failures. It is also affected by a focus on cost-cutting, rising operating costs and falling availability of capital. Finally, large corporates are, all other things being equal, more likely to slash investment in staff than any other employers.

Perhaps more important is the question of who is investing. It appears that most of the capital investment carried out originates with businesses looking to trade abroad or enter new markets, often because they are pessimistic about the prospects of their established markets or domestic economies. These new capital investments depend to some extent on government support. On the other hand, most of the new investment in staff is driven by businesses looking to improve quality standards as a competitive strategy, and it is more of a priority in fiscally unstable markets. While this may appear surprising, by investing in their staff now businesses in these countries could be taking advantage of falling pay expectations or hedging against future inflation.

BETTER DAYS AHEAD FOR FINANCE

The Global Economic Conditions Survey has charted the responses of employers in finance to the economic downturn since early 2009. Over the last year, employment and investment in human resources have taken a hit in finance as they have everywhere else.

However, it is very likely that we have now seen the worst of the upheaval in finance. The number of respondents whose employers have already resorted to compulsory redundancies appears to have definitely peaked and the use of voluntary redundancies also appears to be falling. ACCA's own research has anticipated these findings, noting a significant medium-term trend towards greater demand for financial competences. Better still, although training budgets are still tightening, especially in Africa and Central and Eastern Europe, they are now doing so at a slower pace. ACCA has warned throughout the past year that slashing training budgets is a false economy, one that businesses could come to regret in the recovery.

It is also important to note how the responses of employers are changing. In the second half of 2009, the emphasis shifted towards greater flexibility, with employers increasingly taking on temporary staff and using voluntary redundancies to cut costs. Employers in Western Europe have been leading this trend in many ways, but others, especially in Central and Eastern Europe, are following closely. Finally, outsourcing is still a relatively under-utilised option and so take-up has been growing, led by employers in the Asia-Pacific region.

CONCLUSIONS

One year after it was first established, ACCA's Global Economic Conditions Survey has finally registered the first tangible evidence of economic recovery. It is possible, if not likely, that the next quarter will see a net improvement in economic conditions and that more national economies will follow the leaders in Asia and Africa into stable growth.

However, as with previous surveys, any good news must be treated with caution, as substantial risks remain. At the time of this writing, markets are calling into question the sustainability of government finances around the world. Furthermore, our findings suggest that confidence and optimism have yet to translate into an appetite for investment and the risk it involves, or indeed for hiring and investing in new staff.

Perhaps, as in finance, redundancies are close to a peak and the receding incidence of market failure in the financing of investment is indicative of a genuine shift in the investment environment. Future surveys will continue to monitor these developments. For now, it is important to note that the sluggish recovery of demand, credit supply and investment, coupled with the damaged finances of major governments, will continue to dampen the pace of the recovery in the West – and this in turn will test the endurance of the faster-growing economies in the East.

Figure 1: The finance function through 2009

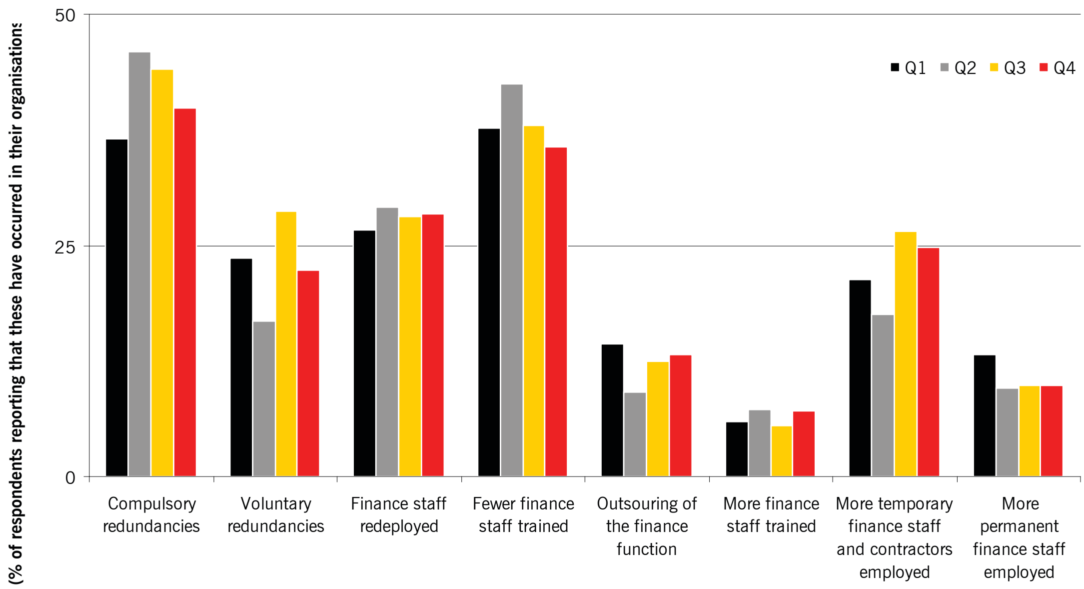
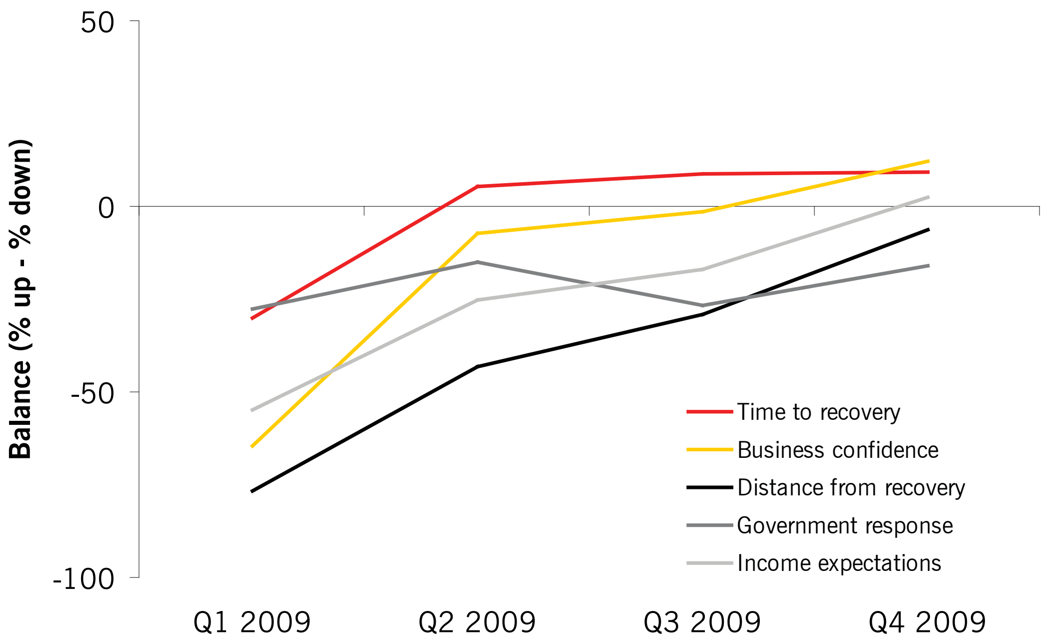


Figure 2: The global economy – main indices



Key to the indices

Time to recovery: The % balance of respondents saying that the recovery is less than two years away, minus those saying that it is 2, 3 or more years away.

Business confiden ce: The % balance of respondents saying that they have gained confidence in their organisations during the last period, minus those saying they have lost confidence in their organisations.

Income expectations: The % balance of respondents whose expectations of their organisation's income for the next period have improved, minus those whose expectations have deteriorated.

Distance from recovery: The % balance of respondents saying that the global economy is at the bottom and about to improve or already improving, minus those saying that it is at the bottom and will stay there or getting worse.

Government response: The % balance of respondents rating the response of their governments as 'Good' or 'Very Good' minus those whose rating was 'Poor' or 'Very Poor'.

Figure 3: Risk indicators: cashflow, demand and employment

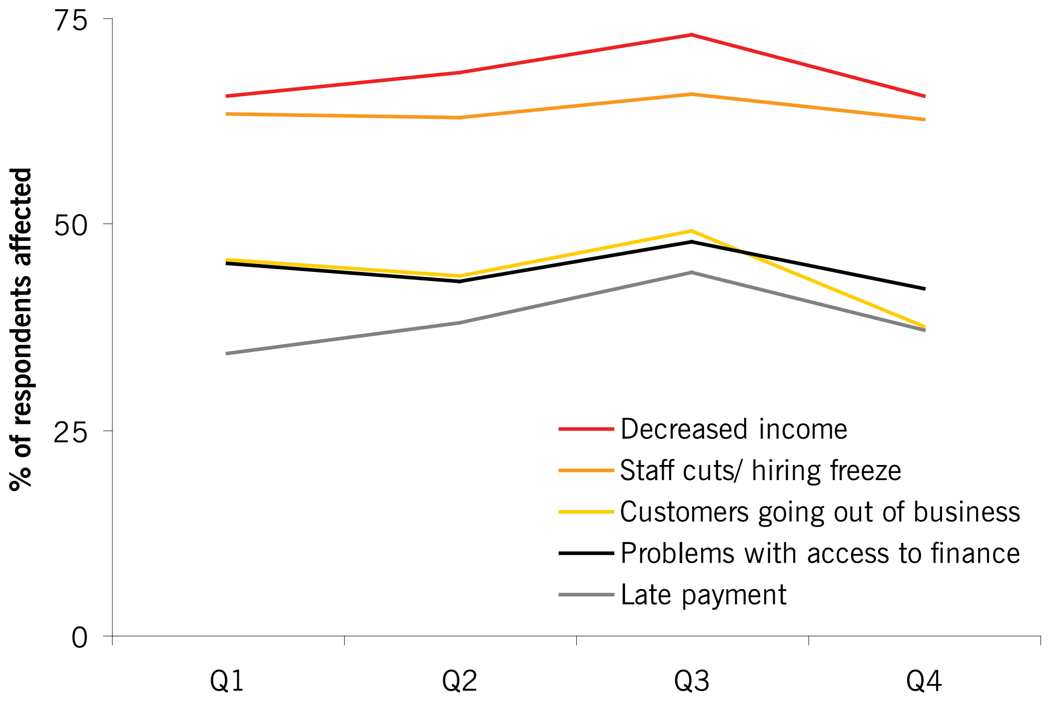


Figure 4: Regional indices, distance from recovery

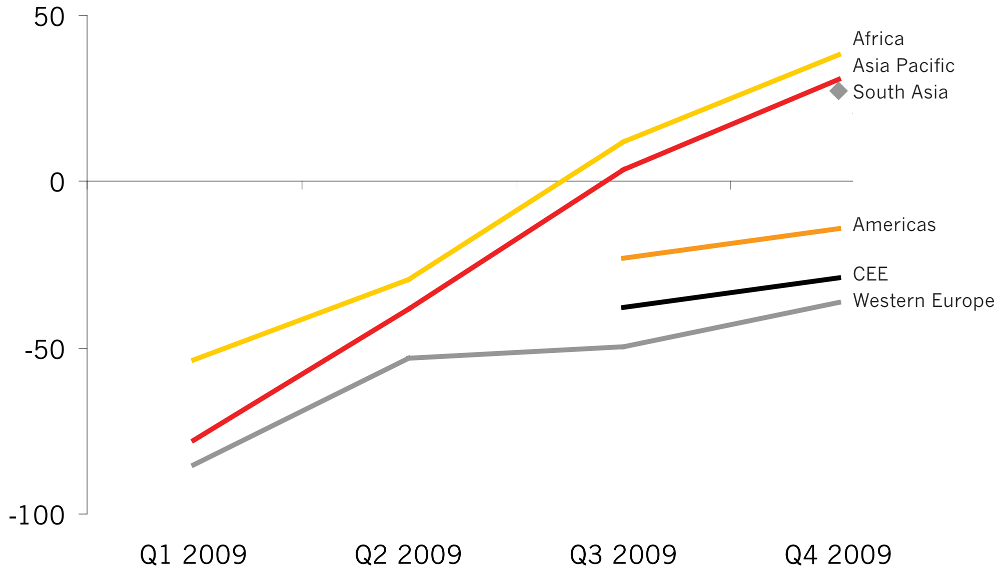


Figure 5: Regional indices, time to recovery

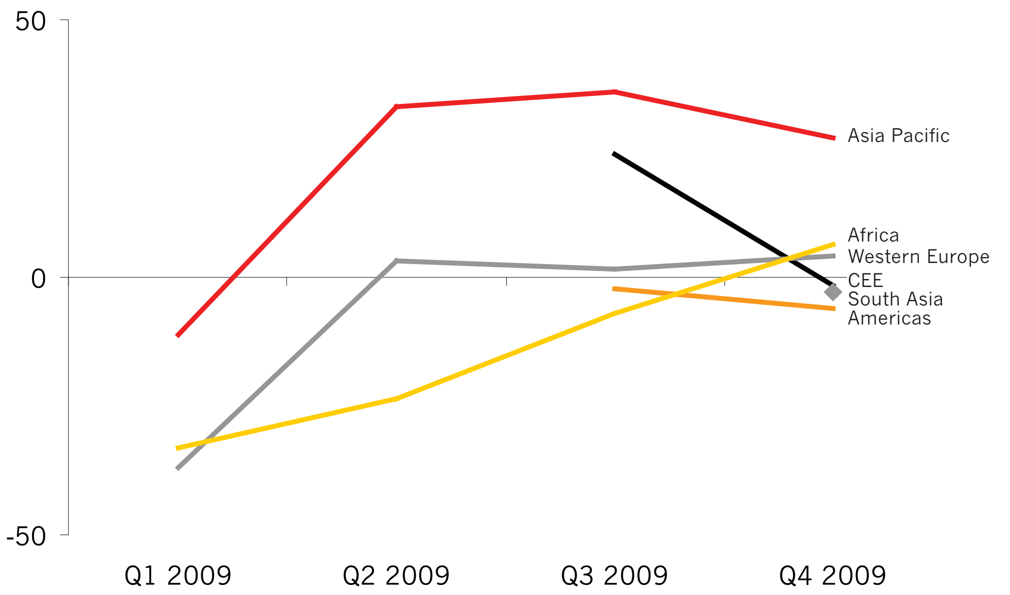


Figure 6: Regional indices, business confidence

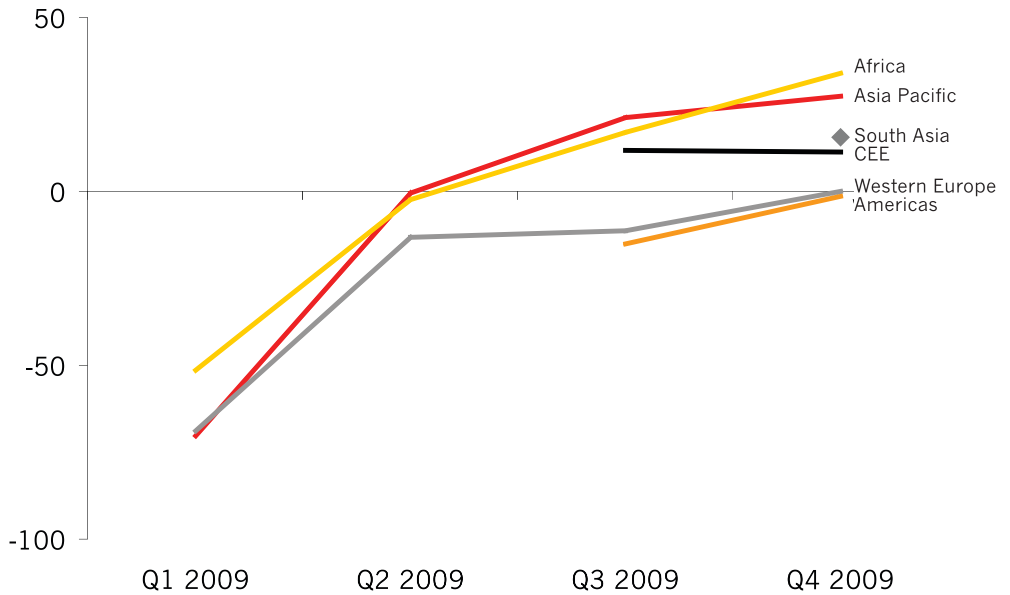


Figure 7: Regional indices, income expectations

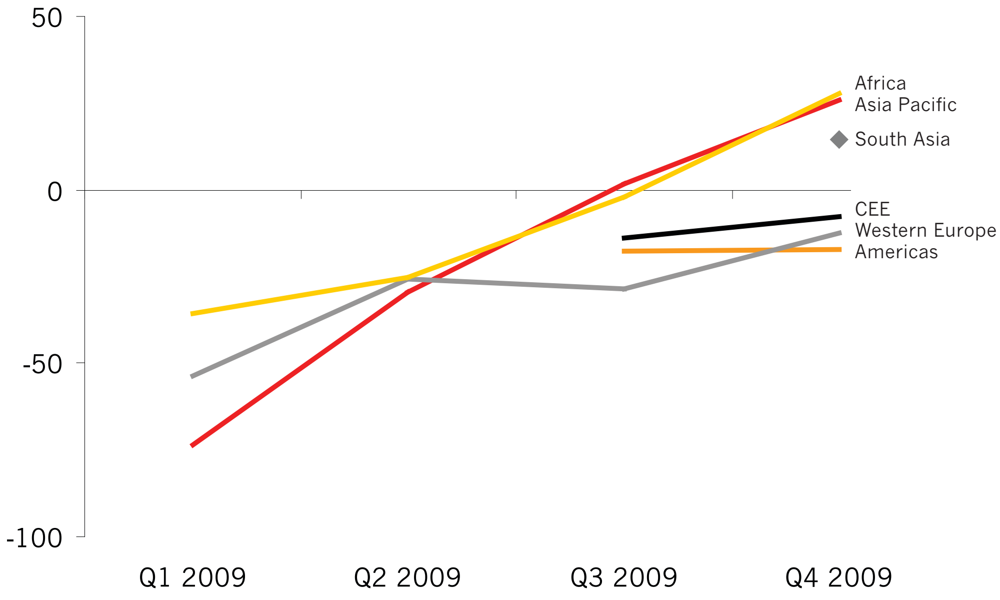
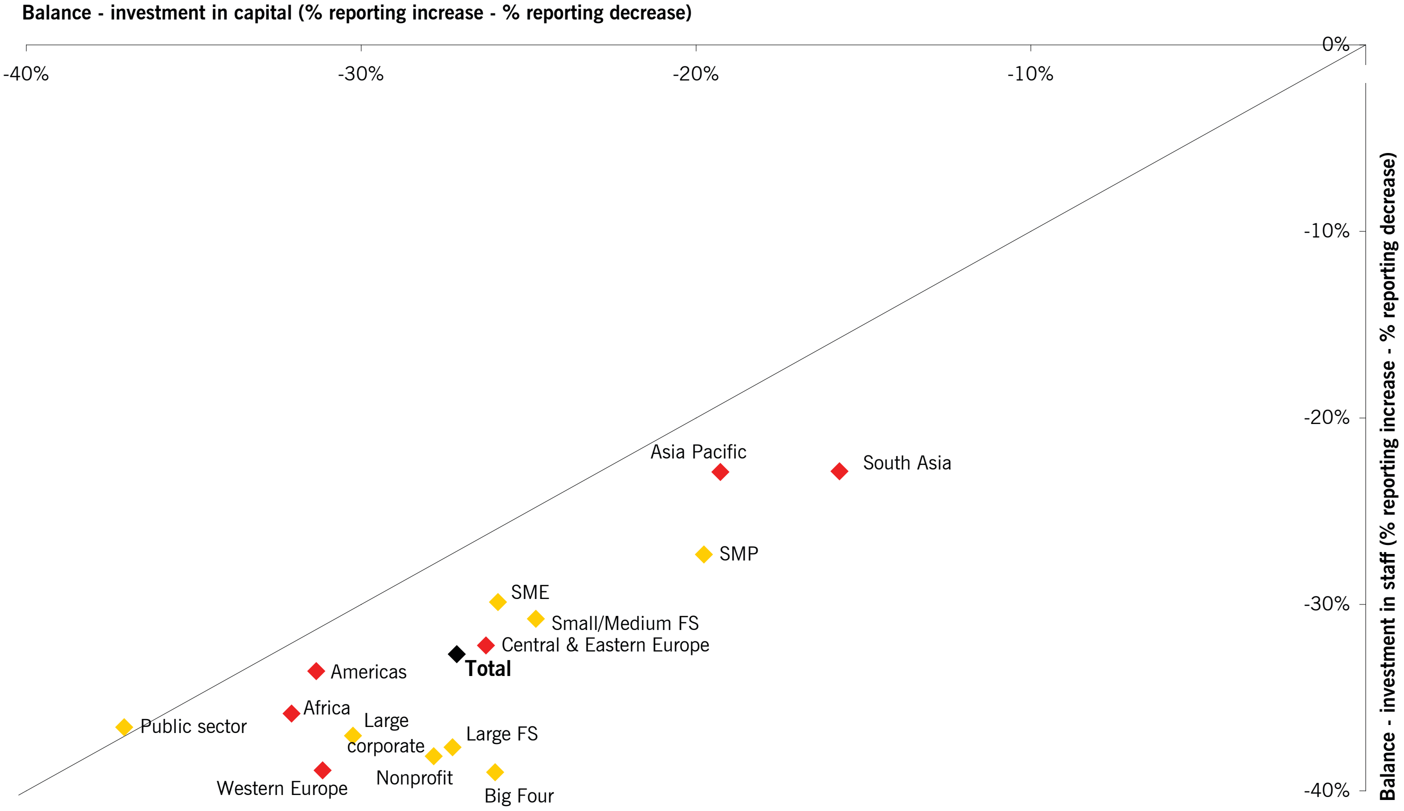


Figure 8: Investment trends – sector and region grid



ACCA AND THE GLOBAL ECONOMY

THE GLOBAL ECONOMY – INSIGHT AND ANALYSIS

Global economic conditions continue to dominate business life. They are at the top of the world's political agenda, and updates and debates on economic issues are almost constantly the centre of media attention. Economic downturns now exist in many countries, and it is far from clear how long the downward trends will continue before economic growth is seen again. Nor is it clear what the impact will be in countries and regions around the world, although it is important to recognise that different markets will be affected in different ways.

ACCA is a prominent voice both on the causes of the credit crunch and on what needs to be done to turn round the global economy. It has already published papers outlining its response to the G20's public agenda and analysis of the outlook for regulation of financial markets. It has also considered issues in accounting, such as fair value and the role of international accounting standards in supporting transparent business practices.

ACCA aims 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 its members in times of challenge.

ACCOUNTANTS FOR BUSINESS

ACCA believes that accountants add considerable value to business by driving down costs and identifying drivers of value and profitability – and never more so than in the current environment. They are instrumental in obtaining access to finance and strengthening the balance sheet. Accountants are also essential to supporting the small business sector, estimated by the OECD to represent 95% of all enterprises. SMEs make a positive contribution to economic growth, requiring well-rounded finance managers and advisers to ensure small businesses survive and grow.

RESEARCH

ACCA is conducting a range of research projects to add to understanding of the effect of the economic conditions around the world, and ways in which the impact can be managed. The objectives of the research include:

- understanding trends and developments, including perceptions of changing prospects and opportunities in the current economic climate
- identifying areas of concern to members and assessing support and services which ACCA can offer to assist members in difficult economic circumstances
- championing the role of the accountant in business – especially the CFO – and illuminating areas of best practice which will help the companies where they work to add value to business strategy and operations, and to help their employers grow profitable businesses in difficult trading circumstances
- identifying ways in which accountants can add value as advisors, and
- understanding learning points and indicators for moving towards a refreshed global economy.

THE GLOBAL ECONOMY

Perhaps at the heart of the current debate on the economic environment is: where next for the global economy? As the G20 countries formulate strategy to promote stability and stimulate growth, the interconnectedness of our economies, and how they are managed and regulated, is firmly in the spotlight. The development of the global accountancy profession came out of, and has contributed to, the development of the global economy, with the aim of promoting common standards for accounting and auditing, and transparency in financial reporting. As a key stakeholder in the debate, ACCA will seek to address the challenges posed for the global economy, not least the need to ensure appropriate regulation, which favours fair competition, capital investment and economic growth; and the removal of barriers inhibiting the lifeblood of our economies – entrepreneurship and innovation.

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