

Global economic conditions survey report: Q1, 2010

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.

CONTACTS

For further information about the Global Economic Conditions Survey and the series of quarterly reports, please contact:

Wendy Towner
Head of Business Intelligence
+44 (0) 207 059 5755
wendy.towner@accaglobal.com

For further information about the technical and policy issues raised in this report, please contact:

Emmanouil Schizas
SME Policy Adviser
+44 (0) 207 059 5619
emmanouil.schizas@accaglobal.com

www.accaglobal.com/economy

Global economic conditions survey report: Q1, 2010

ABOUT THE GLOBAL ECONOMIC CONDITIONS SURVEY

The fifth ACCA Global Economic Conditions Survey was carried out between 9 and 28 February 2010 and attracted 1,361 responses from professional accountants in 95 jurisdictions around the world. As ever, we are grateful to our members for their time and insights, and for making this the largest regular survey of professional accountants in the world.

In addition to the main economic indicators established over the last year, the first survey for 2010 examined in detail the relationship between accountants and their organisations' access to finance, the quality of cost of capital information and the latest developments in the investment environment.

OPTIMISTS FRUSTRATED AS GLOBAL RECOVERY STALLS

As with previous Global Economic Conditions Surveys, the headline findings of our first survey for 2010 are sobering.

Almost a quarter of respondents (23%) now believe that the global economic outlook is improving, up slightly from 21% in late 2009. The consensus view, however, remains that we are at the bottom and will stay there for some time yet (39%). On balance, more respondents still believe the global economy is either deteriorating or stagnating. This outlook has barely improved since the last quarter, suggesting the global recovery has, for the time being, run out steam.

Importantly, after half a year of upward adjustments in relative terms, accountants now appear to have adjusted their expectations of the duration of the recovery upwards in absolute terms. Only 15% of respondents now believe the recovery has less than a year left to run, down from 18% in late 2009. While the consensus view, held by 35% of respondents, is that the global recovery will recover in one year, the percentage of extreme pessimists expecting a very slow recovery (3 years or more) is still rising – it now stands at 11.4%, up marginally from last quarter.¹

Partly in response to these trends, gains in business confidence appear to be easing. While the upward trend in the percentage of respondents reporting strong gains in confidence has continued, only about one third (33%, down from 37%) of the sample now report any gains at all, while 28% (up from 25%) report losses of confidence. Similarly, only 29% of respondents adjusted their expectations of their organisations' incomes upwards in the first quarter of 2010 (down from 32%), while 28% adjusted their expectations downwards (down from 29%). On balance, income expectations appear to be inching back towards negative territory.

The silver lining among all of these downward adjustments are professional accountants' ratings of the government response to the downturn. The upward trend in the percentage of respondents rating government initiatives as 'Good' or 'OK' and the downward trend in respondents rating them as 'Poor' have persisted for a third consecutive quarter.

BUT FUNDAMENTALS CONTINUE TO IMPROVE

Since late 2009, ACCA has noted evidence of not only improving perceptions but also fundamentally positive developments on the ground. Across every key metric employed by the survey, including measures of demand, cashflow, investment and employment, the third quarter of 2009 appears to have marked the bottom of the downturn and the first quarter of 2010 has brought either little deterioration or an outright improvement. But perhaps most impressive of all is the rate of redundancies and salary freezes, which has fallen significantly for the first time since the surveys began. If sustained, this trend would suggest not only improving conditions that businesses are willing to invest in, but also improving medium-term prospects for household consumption and demand in general.

These real improvements build on the encouraging signs of the previous quarter, and, although the first survey of 2010 has failed to record a net improvement in global economic conditions, they suggest that downside risks to the recovery are finally receding.

1. This could misrepresent the amount of bearish sentiment among respondents. Inductive analysis suggests that respondents who say they don't know when the global economy will recover are even more pessimistic than those expecting a recovery in 3 years or more. This percentage has fallen for the first time since September 2009, from 6% to 5%. The combined numbers of the two groups of extreme pessimists have fallen from 17% to 16%. These are still only marginal changes but if these trends persist they would suggest that pessimism is increasing even as uncertainty recedes.

REGIONAL ECONOMIC TRENDS DIVERGE FURTHER

The findings of the Q1 2010 survey suggest further divergence in the economic trajectories of the world's regions. Only in Africa are respondents still reporting an accelerating net improvement in economic conditions, although these perceptions are accompanied by easing income expectations and forecasts of a long and weak recovery. In the Asia-Pacific region, the pace of recovery, while brisk, appears to have levelled off in almost all respects and business confidence has eased significantly. The Americas, alongside Central and Eastern Europe, have finally crossed into positive territory, if only marginally so, while Western Europe continues to languish behind the rest of ACCA's regional markets.

WEAKNESS OF THE RECOVERY SHOWS AS DOWNSIDE RISKS EASE, GOVERNMENTS EXIT

It is impossible to overlook the mixed messages recorded in the latest Global Economic Conditions Survey. The global economic recovery is both less fragile and less powerful now than it has been for at least one year. Important improvements on the ground do not appear to be translating to headline perceptions among respondents to the survey.

Furthermore, it is not finance professionals in the laggard economies, but rather those in Asia and Africa that are revising their outlook and expectations downward; they have been doing so for at least six months. If this appears unlikely in the face of improving fundamentals, it is because our analysis so far has only focused on downside risks or obstacles to the recovery. Further analysis of the drivers of optimism based on pooled data from past surveys² suggests that accountants in these regions (and some of their colleagues elsewhere) may be losing faith in the recovery primarily because of a fall in the number of profitable investment opportunities and receding government support for investment. In fact, it is worth noting that government support for investment in the Asia-Pacific region fell for the first time since Q3 2009, when this question was first asked.

Consequently, investment in both staff and capital projects remains in negative territory. Despite a global investment environment that is still deteriorating in terms of opportunities, supply of capital and government support, there is some evidence of recovery in investment. This, however, is mostly due to improvements in cashflow conditions and demand which will have to bottom out eventually, if they have not done so already. We conclude from this that the investment outlook remains unfavourable and recovery is not yet at hand.

In addition to these observations, it is worth highlighting one source of downside risk that is rising in importance. For much of 2009 policymakers have made much of the threat of deflation, but this has always remained a problem of the West for the most part. In Africa, inflation never receded in the first place, with a reliable ca. 50% of the sample and often more reporting increasing costs each quarter. In the early days of the recovery, this has been partly due to shifting exchange rates, but inflation has persisted even as currency markets stabilised. In the Asia-Pacific region, the share of respondents reporting rising operating costs has risen in every quarter since these surveys began, and jumped from 24% to 36% in the three months to February 2010. In fact, every major region for which a robust sample was available showed signs on returning inflation in the first quarter of 2010.

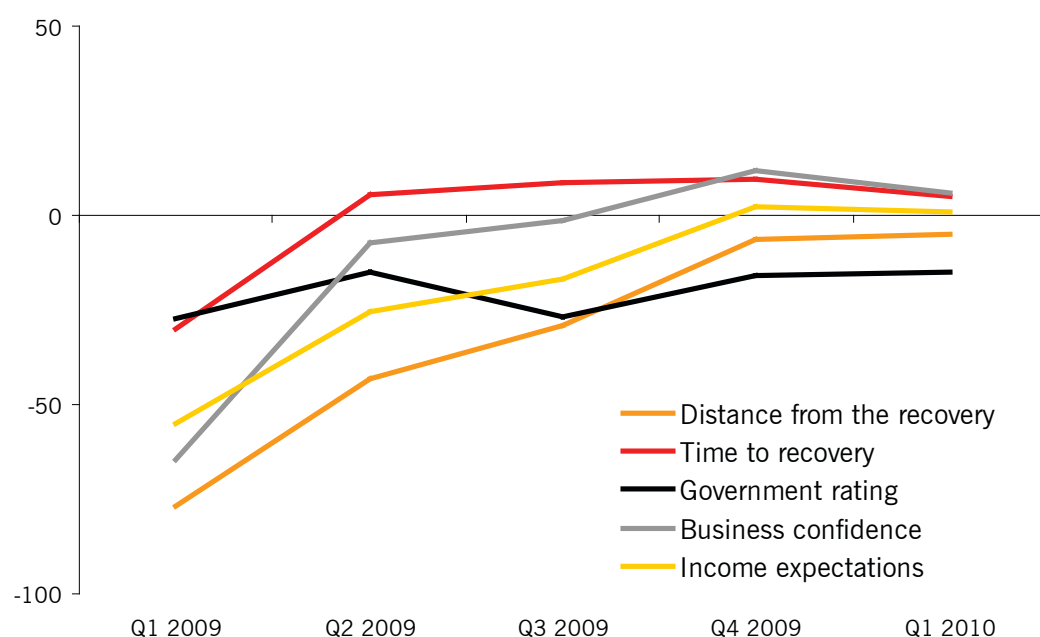
CONCLUSIONS

Much has changed since our last Global Economic Conditions Survey report: government finances have come under unprecedented levels of scrutiny and businesses worldwide, whether in the financial sector or the real economy, have been bracing for the withdrawal of government support. Moreover, the end of 2009 has focused attention on the challenges facing individual businesses, as well as the opportunities offered by a changing world.

Our findings this quarter will offer little comfort to most readers. In short, the global economic recovery appears to have run out of steam. It is certainly encouraging that downside risks to the recovery are receding, but with these no longer obscuring the picture, the fundamental weakness of the global economy is finally plain for all to see. This leaves no room for complacency for policymakers, who must develop a robust, forward-looking growth agenda to match their response to the downturn so far.

2. The Q3 2009 and Q4 2009 samples were chosen in order to take into account the state of government finances and the outlook for public spending. The relevant questions were not included in the latest survey.

Fig. 1: Global economic conditions: main indicators



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 confidence: 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'.

Fig. 2: Risk indicators: cashflow, demand and employment

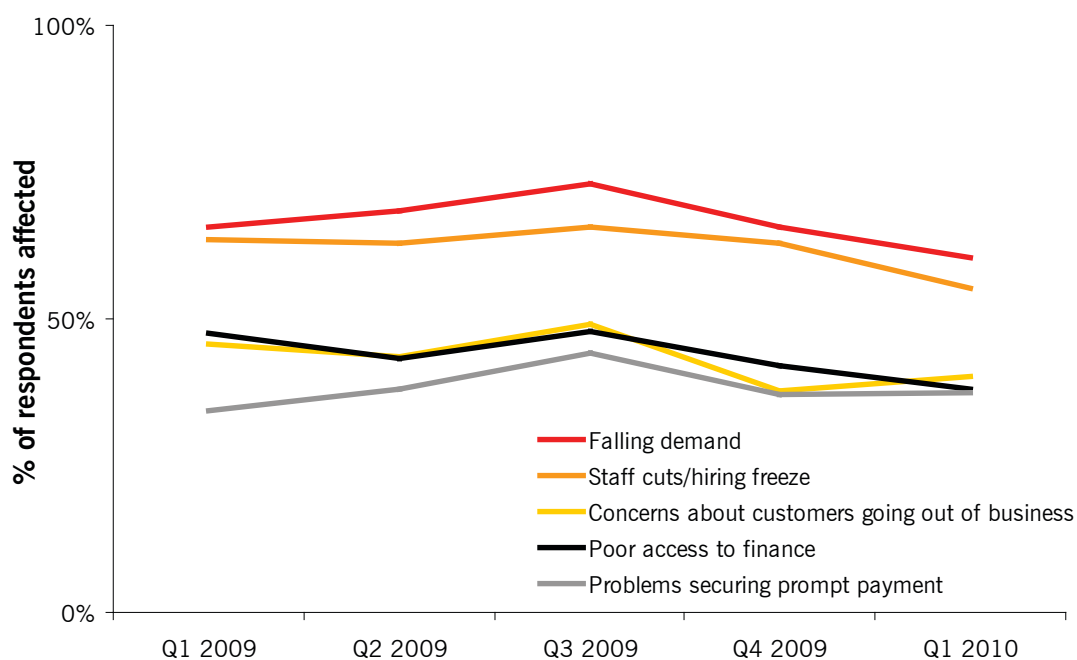


Fig. 3: Regional indices, distance from recovery

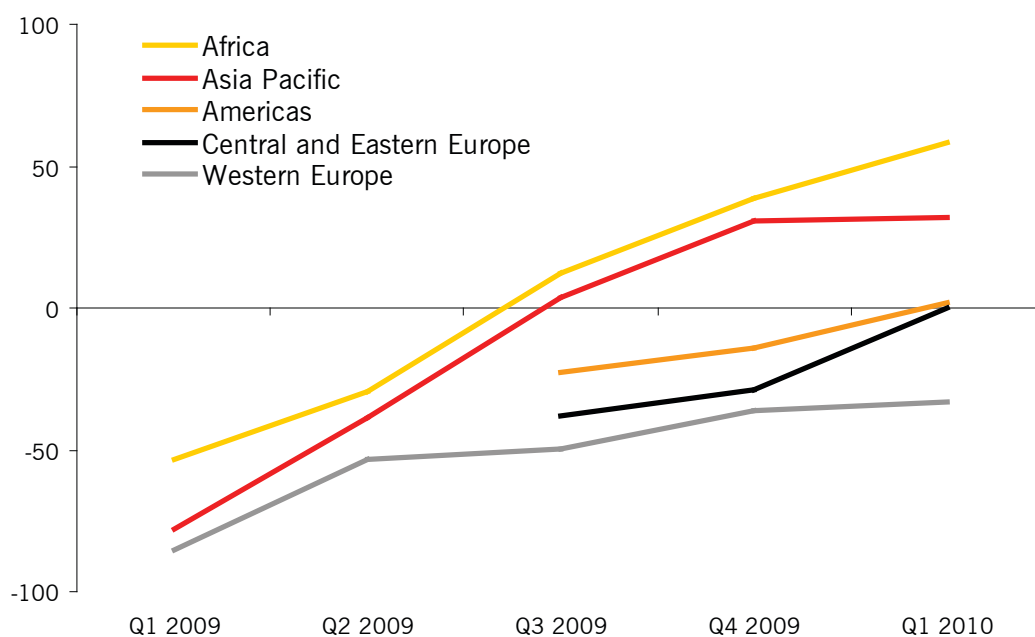


Fig. 4: Regional indices, time to recovery

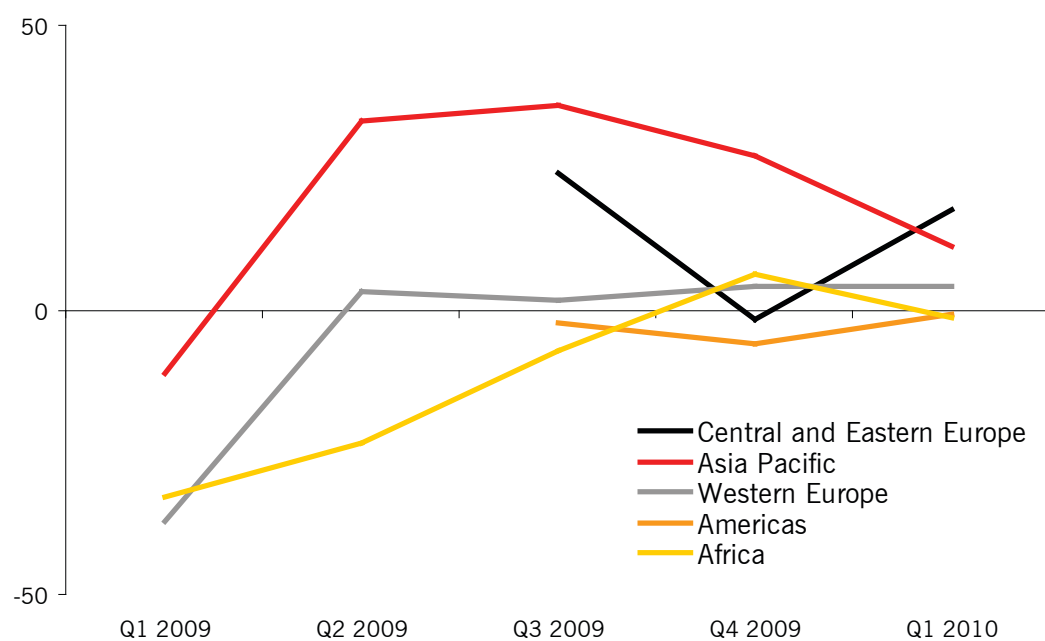


Fig. 5: Regional indices, business confidence

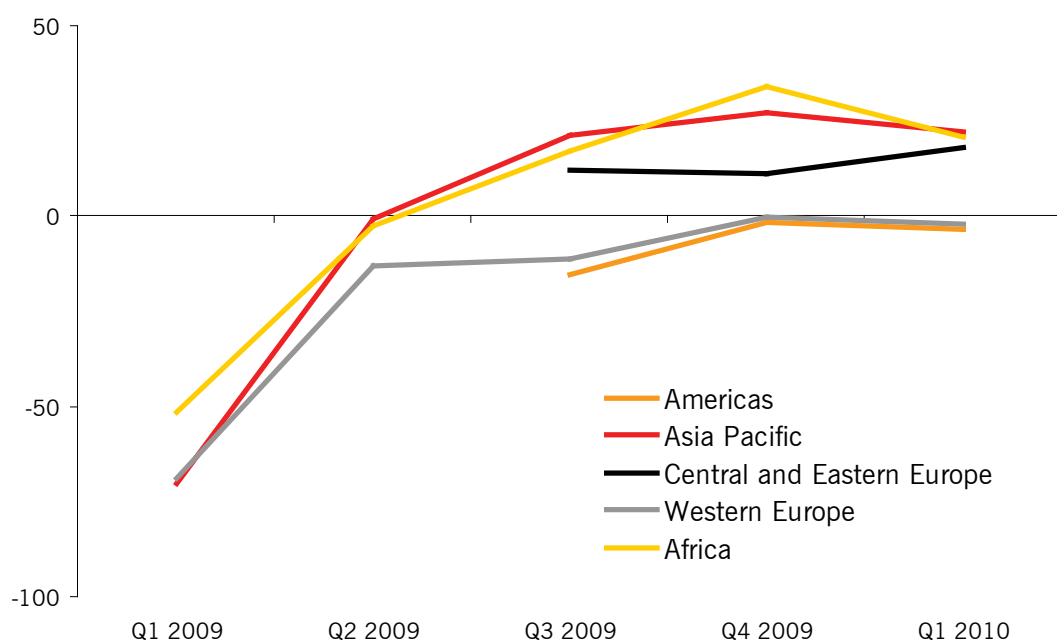


Fig. 6: Regional indices, income expectations

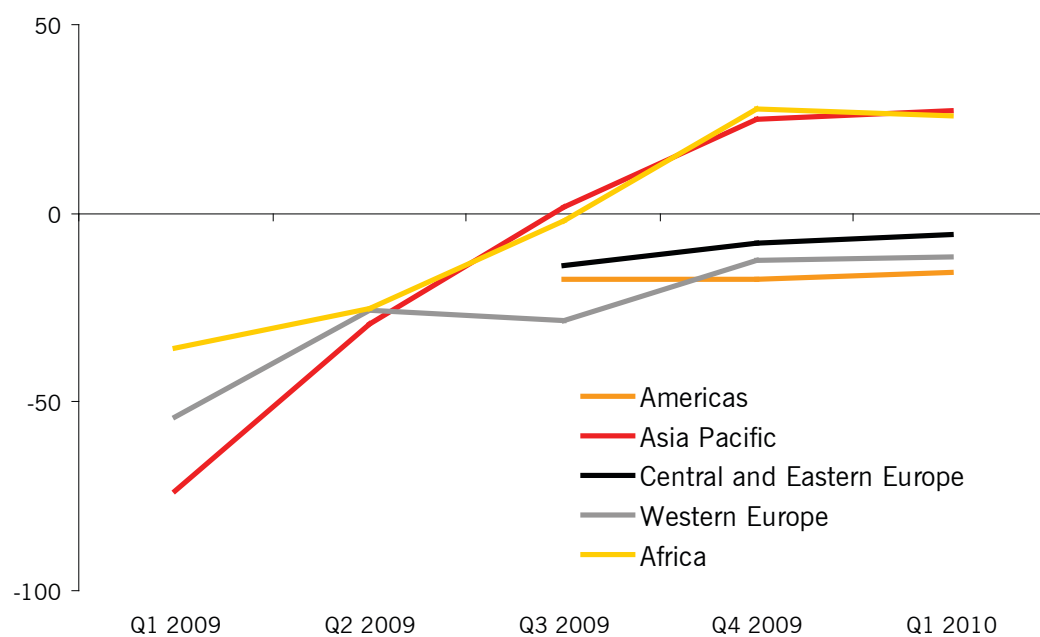
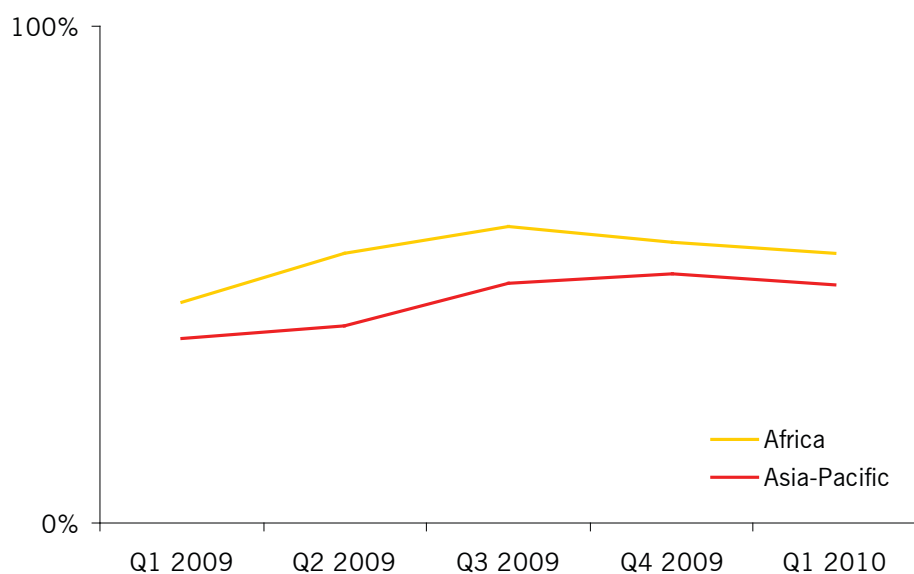


Fig. 7: Incidence of opportunities other than cost-cutting³



3. Note that this index measures the incidence of any business opportunities at all other than cost-cutting and does not correspond perfectly to the 'profitable investment opportunities' variable, which is based on a different GECS question. The index is used instead for illustration purposes as it allows observations to be compared across all surveys carried out to date.

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.

TECH-MS-GEC05