

ACCOUNTANTS FOR BUSINESS

# Global economic conditions survey report: Q3, 2010

## 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 at all stages of their development. We seek to develop capacity in the profession and encourage the adoption of 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 seek to open up the profession to people of all backgrounds and remove artificial barriers, innovating our qualifications and their delivery to meet the diverse needs of trainee professionals and their employers.

We support our 140,000 members and 404,000 students in 170 countries, helping them to develop successful careers in accounting and business, based on the skills required by employers. We work through a network of 83 offices and centres and more than 8,000 Approved Employers worldwide, who provide high standards of employee learning and development. Through our public interest remit, we promote appropriate regulation of accounting and conduct relevant research to ensure accountancy continues to grow in reputation and influence.

## ABOUT ACCOUNTANTS FOR BUSINESS

ACCA's global programme, Accountants for Business, champions the role of finance professionals in all sectors as true value creators in organisations. Through people, process and professionalism, accountants are central to great performance. They shape business strategy through a deep understanding of financial drivers and seek opportunities for long-term success. By focusing on the critical role professional accountants play in economies at all stages of development around the world, and in diverse organisations, ACCA seeks to highlight and enhance the role the accountancy profession plays in supporting a healthy global economy.

[www.accaglobal.com/accountants\\_business](http://www.accaglobal.com/accountants_business)

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## ABOUT THE GLOBAL ECONOMIC CONDITIONS SURVEY

ACCA's Global Economic Conditions (GEC) Survey has been running on a quarterly basis since February 2009 and is now the largest regular survey of professional accountants in the world. This powerful, growing record of business opinion continues to help guide ACCA's thinking on the state of, and prospects for, the global economy.

Whether they work in practice or industry, in the private or public sector, in SMEs or large corporates, accountants have front-row seats to the recovery.

For this reason, ACCA believes that the insights from these surveys are of interest not only to the profession but also to the wider public.

Fieldwork for this latest edition of the survey was carried out between 24 August 2010 and 8 September 2010 and attracted 1,895 responses from professional accountants in 114 jurisdictions around the world.<sup>1</sup> In addition to our standard questions, the latest survey revisited the issue of medium-term trends in government spending, which was first addressed one year ago, to see how the challenging fiscal conditions in Europe have affected our members' expectations.

As ever, we are grateful to all of the members that responded to the Q3 2010 survey, and especially to our regional commentators whose detailed reports are featured in this quarter's edition of Views from the Coalface.

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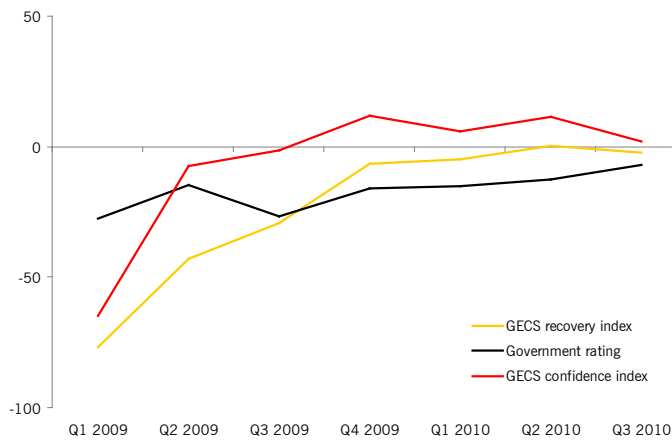
1. Exceptionally, ACCA members in Singapore were surveyed earlier, with the survey going live on 22 July and closing on 5 August 2010.

**CASH-STRAPPED GOVERNMENTS UNABLE TO OFFER SUPPORT AS GLOBAL ECONOMIC RECOVERY STALLS**

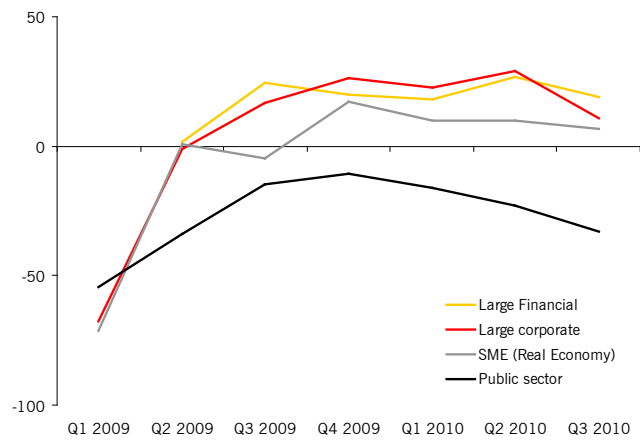
When our global recovery index first edged into positive territory three months ago we noted that this marginal improvement was extremely fragile and that the risk outlook was still negative. Our members now confirm that the recovery has stalled. While almost half (47%) believe that conditions are improving or about to do so, a larger percentage (49%) believe that they are stagnating or deteriorating. The percentage of members who are either unsure about the state of the global economy or believe it is deteriorating (19%) is now almost as high as it was one year ago.

Although accountants' confidence in their organisations has risen again in the last quarter, it has done so only marginally – at the slowest rate of the last 12 months. The largest share of respondents (42%) once again reported no change in their confidence levels; however, the share of those reporting gains in confidence fell from 36% in the second quarter of 2010 to 30%. As Fig. 2 shows, members in the private sector are still reporting rising confidence but at a much slower pace, with large corporates in particular coming under pressure in the latest quarter. Small and medium-sized enterprises (SMEs) report a much less volatile outlook, with confidence still rising at a pace similar (if slightly slower) to the last quarter's. However, confidence among public sector accountants is falling ever faster and could soon reach levels unseen even during the depths of the downturn.

**Fig. 1: Global economic conditions: main indicators**



**Fig. 2: Business confidence by major sector**



**Key to the indices**

**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.

**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'.

## PUBLIC SPENDING SET TO RISE IN AFRICA AND ASIA; WESTERN ACCOUNTANTS BRACE THEMSELVES FOR FISCAL TIGHTENING

Compared to previous surveys, the medium-term outlook for government spending has become more conservative: expectations of fiscal expansion are becoming more moderate while predictions of fiscal tightening are becoming more extreme. Overall, in light of a weakening economic recovery, accountants are finding it increasingly likely that their governments will spend less than they ideally should over the next five years, although the share of respondents that expect a dangerous contraction in government spending (7%) is marginally lower than it was last year (8%).<sup>2</sup> In fact, an increasing number of professionals (35%) expect that their national governments will maintain spending at the right level, up marginally from last year (Q3 2009: 31%; Q4 2009: 34%).

Of course, as Fig. 3 shows, these results are heavily influenced by developments in Europe and, to a lesser extent, the Americas. In Africa and Asia, the outlook for fiscal policy is strongly expansionary. However, although members in the Asia-Pacific region are largely confident that their governments can afford this level of spending, those in South Asia and Africa believe that fiscal policy over the next five years will be more of a balancing act. Fig 4 summarises the extent of fiscal policy challenges by region.

Because of the fiscal situation in Western Europe and elsewhere, accountants do not appear to be blaming national governments for the overall deterioration in the economic outlook. Globally, ratings of government interventions continued to improve in the latest quarter, despite a scaling back of support for businesses and investment, with the government rating index rising to its highest level yet. Although a third (33%) of respondents still rate government interventions negatively, this is an improvement from the previous quarter when 38% did so.

Fig 3: Expected changes in public spending within the next five years, by region (% expecting an increase minus % expecting a decrease)

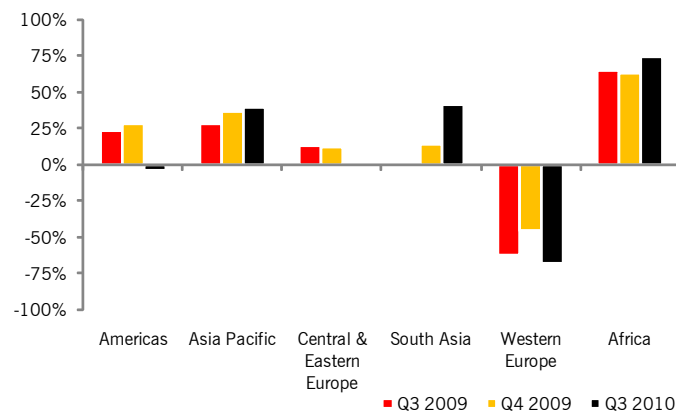
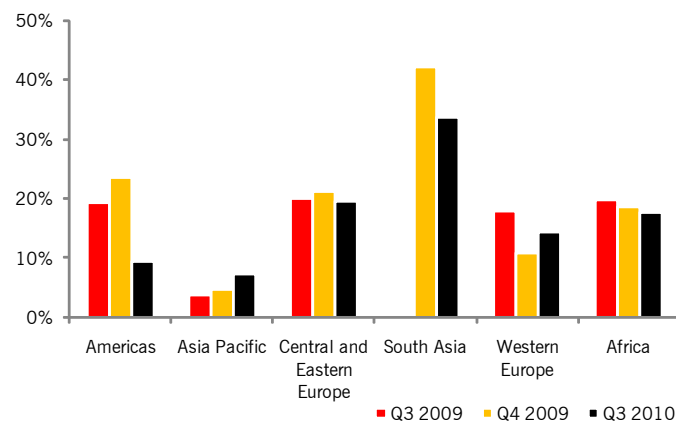


Fig 4: % of respondents expecting dangerous deviations from the ideal level of public spending over the next five years, regardless of direction



2. Expectations of over- or under-spending were inferred indirectly. Respondents were asked what they thought the medium term trend in public spending was going to be and what it should be. Both questions were coded on a range of 1 to 5 (1 = significant fall; 3 = no change; 5 = significant rise) and a new variable was defined as the difference between expected and desired spending, ranging from -4 to 4 (-4: extreme underspend; 0: 'correct' level of spending; +4: extreme overspend). The Q3 2009 GEC survey established that, all other things being equal, members with expectations of a large ( $\pm 3$ ) or extreme ( $\pm 4$ ) deviation from the 'correct' level of spending expected a slower recovery. These are hence summarised as 'dangerous' deviations.

**FUNDAMENTALS POINT TO TURBULENCE AHEAD**

For the first time since ACCA’s GEC surveys began, the fundamental indicators for Q3 2010 have not pointed uniformly towards improving conditions. The good news is that business incomes improved in the short term, with only 52% of respondents reporting falling income, down from 55% in the last quarter and 73% one year ago. The incidence of late payment, customer bankruptcies and staff cuts also fell.

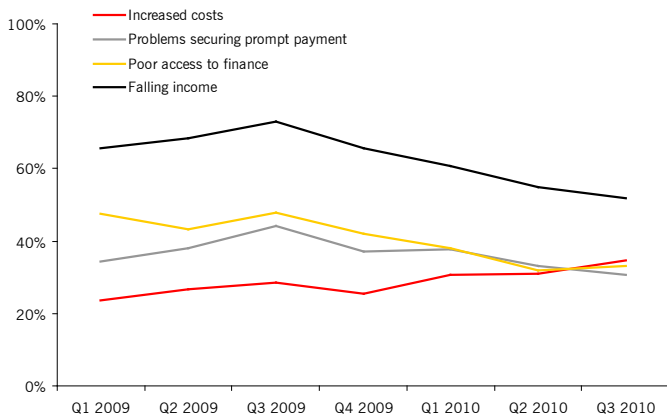
However, two of our major risk indicators, namely inflation and access to finance, have deteriorated in the last three months (Fig. 5). Inflation in particular has now been on the rise for nine months, with 35% of respondents reporting rising operating costs. Crucially, the outlook for new orders has also weakened and more respondents are reporting concerns about the viability of their suppliers. These findings suggest that a period of renewed financial and economic turbulence might be on the way and that cashflow problems may be resurfacing.

**CONFIDENCE SUFFERS AROUND THE WORLD AS ACCOUNTANTS TAKE STOCK OF ‘NEW NORMAL’ CONDITIONS**

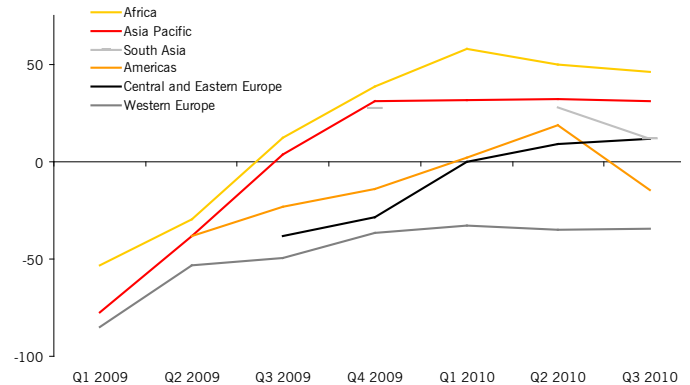
Although our headline finding of a stalled recovery makes for very dramatic reading, it is important to appreciate that important variations exist at the regional level (Fig. 6). Despite lowered expectations, members in China, Hong Kong and Singapore are reporting a net increase in employment and investment. Overall, the recovery mostly appears to have levelled off rather than gone into reverse; these patterns of ‘mean reversion’ can now be seen throughout the world. In Asia Africa and Europe, accountants’ views have either remained constant for the last two quarters or point to a pace of recovery that is tapering off. Only in the Americas have accountants reported a genuine change of fortunes in the latest quarter.

However, if the pace of the recovery is converging to a ‘new normal’, this must be set at a disappointingly low level – because accountants’ confidence in their organisations has taken a hit across regions and is now once again falling in South Asia and Western Europe (Fig. 7).

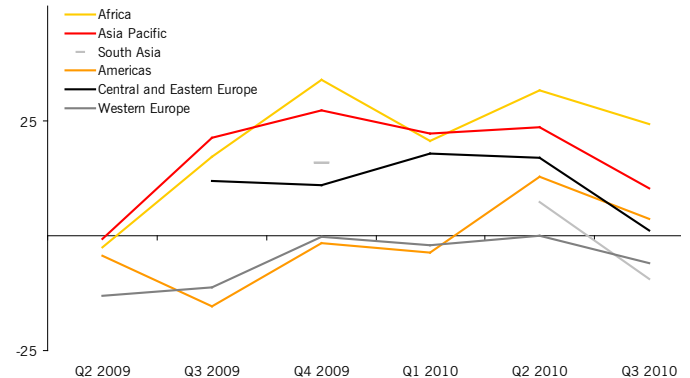
**Fig. 5: Risk indicators**



**Fig. 6: Regional indices, distance from recovery**



**Fig. 7: Regional indices, business confidence**

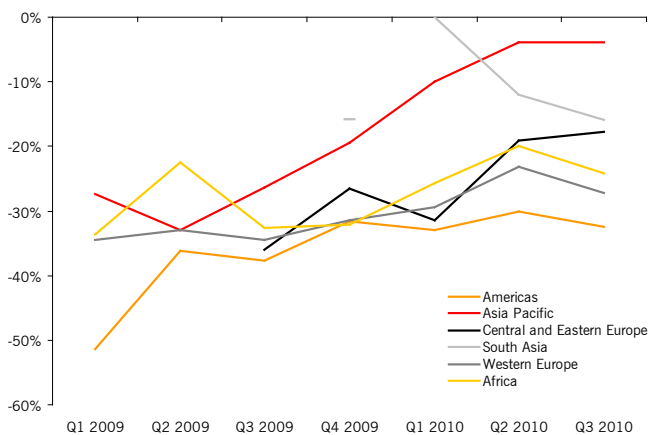


## POOR FUNDAMENTALS WEIGH DOWN INVESTMENT

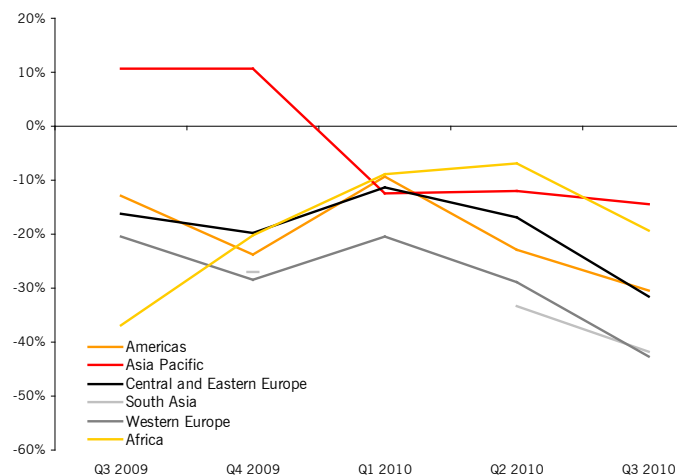
Perhaps more worrying than the deteriorating fundamentals is the fact that investment has been knocked off the path to recovery according to the latest quarterly data. Although 14% of respondents reported a rise in investment (whether in capital or staff), the number of respondents reporting a drop in investment rose further, with 28% scaling back capital projects and 27% scaling back investment in staff. This has pushed both of ACCA's investment indices (staff and capital) deeper into negative territory (Fig. 8 for capital) and cancelled out some (though not all) of the gains recorded in the last quarter.

While investment held up best in the Asia-Pacific region and Central and Eastern Europe, partly because access to finance for investments did not materially deteriorate, members in South Asia and Western Europe reported a substantial fall in investment, largely because government support for investment receded dramatically. Governments' retreat from supporting investment is in fact evident across regions (Fig. 9), with only the governments of the Far East still heavily engaged in this agenda.

**Fig. 8: Regional indices: investment in capital**



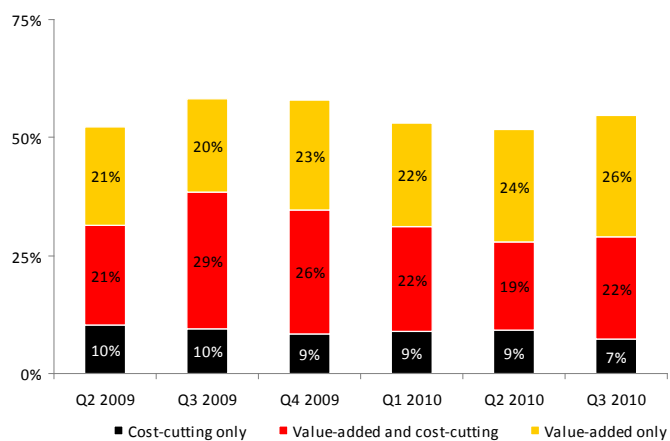
**Fig. 9: Regional indices: government support for investment**



## OPPORTUNITIES BECKON ONCE AGAIN DESPITE POOR OUTLOOK

As we suggested in our previous report, the worst of the economic downturn provided opportunities for astute business people; so have the challenging conditions of the latest quarter (Fig. 10). Overall, the main trends in business opportunities that we identified in our previous report continue to hold: accountants are reporting fewer projects based on cost-cutting alone, and more purely value-added opportunities, especially with regard to investments in quality and innovation. This pattern holds across both developed and developing countries, although the adjustment in OECD economies<sup>3</sup> appears to have been sharper over the last three months.

Fig. 10: Business opportunities reported, by content



3. The OECD economies are Australia, Austria, Belgium, Canada, Chile, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States.



# Views from the coalface

## VIEW FROM JAPAN



**Vince Hodgson, consultant, private retail consultancy, Japan**

The Japanese economy will slow for the foreseeable future, driven by a strong yen (despite recent FX market intervention) which is affecting exports and reducing the cost of imports. This in turn is

making deflation harder to manage, but at least the Bank of Japan (BOJ) now admits that deflation is an issue.

In terms of the real economy this means that cars, electronics, and other major exports are going to be affected adversely. This has already resulted in a pull back of recruitment (meaning unemployment will remain high over 5%), and also in recent stock market losses. The elimination of existing government stimulus on cars and electrical goods will see these sectors struggle as exports and also domestically.

Consumer spending, a key driver of the economy, shows no signs of recovery with continuing negative year on year growth figures in the retail sector, department and convenience stores. Tourism figures are falling and the hospitality industry is generally lowering prices or making promotions to drive up capacity. On the growth side capital intensive areas do not seem to be utilizing low cost financing, even though it is said machinery orders are rising. Overall the short-term outlook for growth, employment and recovery in general is weak.

The future holds the prospect of a fundamental tax review. If government liabilities are not to continue rising relative to GDP, this is bound to include a consumption tax (VAT) hike to 10%, although an aging population will force VAT on food to remain at 5%. This simply exacerbates the social security costs of an ageing nation; a problem not being addressed effectively at all.

In summary, recent developments in Japan over a wide range of important areas mean a much tougher business environment over the next 6 to nine months at least. Any setbacks in other global economies/ markets will simply further exacerbate Japan's current economic dilemma. The upcoming election has simply guaranteed no significant economic counter-measures for two to three months, while concerns about national debt will prevent any major stimulus plans.

## VIEW FROM EUROPE



**Eric Verheijden, finance manager, Air Products (industrial gasses – over 1,000 employees)**

Globally we have seen an improvement in revenues, profits and margins. This was mainly due to an increase in volumes. Also measures that were taken last year and earlier this year seem to be

paying off and enhancing our margins. We are still hopeful that during 2011 we can see a full recovery as a company.

However if we compare our regions we see that Europe is still lagging behind the other regions. The devaluation of the Euro is still an issue and there is a risk of a double dip. EU members have budget shortfalls substantially greater than the 3% ceiling set for the EU.

We still have problems in Spain but this seems to be bottoming out now, although economic growth there is minimal and well behind other countries in Europe. Unemployment is still very high. The Spanish government has taken some unpopular decisions and this is reflected in increased industrial action. The UK is improving but not outstanding. In general our expectation is that recovery in Europe will take longer than the rest of the world.

My personal responsibility is for the Netherlands and Central Europe. The Netherlands is doing well and increasing volumes, revenue, profits and margins; we also have a big investment ongoing there. In the Czech Republic and Slovakia we also see growth. The only country that is still lagging behind in this region is Poland. Although the economy overall is doing well, in our industry we still have difficulties. We expect that will continue for quite some time.'

## CONCLUSIONS

ACCA has warned for some time that the pace of economic recovery may be faltering but the latest quarter almost certainly marks a turning point, with business confidence and investment suffering a serious setback. As disappointing as the figures are, it is too early to say whether fears of a renewed downturn are justified. It is very likely that what we are observing is a gradual adjustment of expectations as the early, stimulus-fuelled days of the recovery give way to a less dynamic, 'new normal' set of conditions. Businesses are identifying and seizing more value-added opportunities in this environment and it is clear that they are relying much less on government support in order to do so – both encouraging signs.

This new chapter in the global economic recovery appears to involve more uncertainty, further financial turmoil and an even stronger divergence between the fortunes of developed and developing countries, this time based not only on demand or access to credit but also on the quality of government finances in Europe and beyond. The latter continues to cast a shadow over the recovery. However, accountants are increasingly expressing the belief that governments will manage to live up to the challenge in the medium-term and are even increasingly satisfied with their actions in the short term.

In light of these trends, our next quarterly survey may be the most important one yet; this quarter could prove to have been a temporary pause for breath or the beginning of a second downturn. The next survey will also provide us with an opportunity to consider how the demand for finance professionals and their skills has responded to the twists and turns of the recovery, and how these trends compare with the medium-term expectations of employers.

# 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.

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-GEC07**